FINANCIAL TIMES

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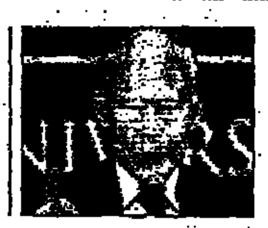

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WORLD NEWS

Italy and Turkey clash over Kurdish leader's extradition

Italy and Turkey were last night edging towards a serious diplomatic dispute as Rome appeared reluctant to extradite Abdullah Ocalan, leader of Turkey's outlawed Kurdistan Workers' Party (PKK) to Ankara. **Page 18; Italian sympathy, Europe, Page 2**

Greens call for immigrants deal
France's Green party has broken ranks with the government's immigration policy, calling for 60,000 illegal immigrants to be allowed to remain in the country. **Europe, Page 2**

Airports warned over charges
Airport operators in Denmark and Ireland have come under fierce pressure from airlines not to raise landing charges next year to offset lost income when duty free retailing is abolished within the European Union. **Europe, Page 3**

Market for new cars falters
Western Europe's strong new car market growth this year faltered in October. But leading motor industry executives insist that there are no sound reasons for the market to slip into recession. **Europe, Page 3**

IMF urges Swiss to reform tax
The International Monetary Fund has urged Switzerland to reform its tax system to reduce inefficiencies arising from the differing corporate and income tax systems of the country's 26 cantons. **Europe, Page 3**

New euro payments system
The first euro payments system went live yesterday when the Euro Banking Association switched its system for settling Ecus over to a new network designed to handle 40 per cent of cross-border euro payments. **Europe, Page 3**

Gates denies competition worries
Bill Gates, chief executive and founder of Microsoft, tried to distance himself and his company from the competition over internet software with Netscape Communications. **The Americas, Page 6**

Cuba edges to Paris Club accord
Cuba stepped up consultations with its Paris Club creditors about the possibility of unblocking debt re-scheduling negotiations. **The Americas, Page 6**

Netanyahu delays land handover
Benjamin Netanyahu, Israeli prime minister, said he was postponing plans to hand over land to the Palestinians until Yassir Arafat, president of the Palestinian Authority, retracted recent remarks warning of an armed uprising against Israel. **International, Page 8**

Sting in comet's tail for satellites
The operators of more than 500 satellites in orbit around Earth are taking precautions to protect them against what may be the strongest meteor storm since 1966. **International, Page 8**

Tokyo stimulus gets cold reception
The Japanese government's enhanced economic stimulus package received a lukewarm reception from markets and analysts. **Asia/Pacific, Page 4; Editorial Comment, Page 17; Observer, Page 17**

Beijing orders reshuffle
The Chinese government is reshuffling senior financial personnel as part of Beijing's efforts to rationalise and re-centralise control of the financial services industry. **Asia/Pacific, Page 4**

BUSINESS NEWS

France Telecom hopes alliance will drive global growth

France Telecom aims to generate a third of its revenues from international activities by 2006 by capitalising on its Global One alliance with Deutsche Telekom and Sprint of the US. Revenues from its domestic fixed-line operations fell 5.4 per cent to FFr69.5bn ($12.27bn) in the latest nine months. **Companies and Markets, Page 19**

Shares of Rhône-Poulenc and Hoechst, the French and German pharmaceuticals groups, surged as rumours of a merger between the two rivals reached fever pitch. **European companies, Page 20**

General Motors has put a price tag of $8bn-$10bn on Delphi Automotive Systems, its parts making operation, and vowed to push ahead with a plan to shed the business before the end of next year. **Companies and Markets, Page 19**

Telefónica, the Spanish telecommunications group, reported earnings up 15.2 per cent in the latest nine months, in line with expectations. **European companies, Page 20**

Kvaerner, the troubled Anglo-Norwegian construction and shipbuilding conglomerate, warned it faced possible further writedowns following a NKr1.2bn ($160m) adjustment that wiped out nine-month profits. **European companies, Page 20**

Bristol-Myers Squibb, the US-based pharmaceuticals company, said it would take a fourth-quarter charge of $400m-$500m to increase its reserves for liability in breast implant litigation. **US companies, Page 21**

British Steel blamed a 24 per cent drop in interim profits on falling European prices, and forecast a loss for the year unless trading conditions improve. **Companies and Markets, Page 19; Lex, Page 18**

Moody's, the US ratings agency, warned it may downgrade the debt of Nissan and Mitsubishi Motors, the Japanese automotive groups, to non-investment status. **Companies and Markets, Page 19; Lex, Page 18**

China plans to open its railway industry to further foreign investment, counting on RMB10bn ($1.2bn) worth of overseas funds for railway construction over the next five years. **Trade, Page 5**

Nikko Group of Japan has axed its Hong Kong securities and futures operations, dealing a further blow to the territory's financial services sector. **Asia/Pacific companies, Page 24**

The Japanese government will decide by the end of the week whether to go ahead with the sale of a fourth tranche of shares in NTT, the telecommunications giant. **Asia/Pacific companies, Page 24**

Warburg, Pincus, the US private equity group, is acquiring almost half of Jordan Grand Prix, the UK-based Formula One motor racing team, for about $60m. **UK companies, Page 28**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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Viag and Alusuisse in talks

German conglomerate poised for full-blown takeover of Swiss industrial group

By William Lewis in New York

Viag, the German conglomerate, is in takeover talks with Alusuisse-Lonza, the Swiss industrial group, in the latest burst of European cross-border consolidation.

Viag has a market capitalisation of DM31.5bn ($18.9bn), and Alusuisse has a market capitalisation of SFr10.2bn ($7.5bn). That means a takeover would create a company with market capitalisation of approximately $26bn.

Both companies declined to comment, but people close to the negotiations said that while the talks had been wide-ranging – covering alternatives short of a full-blown takeover – both sides seemed settled on a comprehensive takeover by Viag.

Separately, people close to Hoechst of Germany and Rhône-Poulenc of France, two of the world's largest pharmaceutical and life sciences companies, said they remained on track to agree a merger within days.

The two prospective deals are the latest in a trend of big mergers in Europe this year spanning sectors from pulp and paper, through steel, the motor industry and chemicals, to banking and insurance, prompted by growing global competitive pressures and the launch of the single European currency in January.

Viag said last week it was looking for "rapid" improvement in its performance industrial activities – which include chemicals, aluminium and packaging – to balance earnings from its core energy division. Wilhelm Simson, the group's newly appointed chairman, said a balance could be achieved through external as well as internal growth.

Besides power and its industrial activities, Viag has pushed into telecommunications, where it has a joint venture in Germany with British Telecommunications and Telenor of Norway.

In the first nine months of 1998, Viag increased pre-tax earnings by 17 per cent to DM2.6bn. Sales were up 8 per cent at DM39.5bn.

Alusuisse-Lonza is a maker of aluminium, chemicals and packaging. In February it was disclosed that Martin Ebner, Switzerland's best known corporate predator, had taken a 6.3 per cent stake in the Swiss company.

Sergio Marchionne, the Canadian chief executive of Alusuisse Lonza, has overseen a significant restructuring of the group, pushing profits higher.

Over the past decade the group has been transformed from one devoted to raw materials and primary products into a technology based group in the fields of aluminium, chemicals and packaging. More than a third of its operating income comes from aluminium.

Shares in Hoechst rose 3 per cent yesterday to DM78.30. Rhône-Poulenc shares ended the day in Paris up FFr8.70, or 3.4 per cent, at FFr264.80.

Additional reporting by William Hall in Zurich and Ralph Atkins in Bonn.

Chain reaction, Page 16

Strong signal: US vice-president Al Gore backs the reform movement of Malaysia's 'brave people' at yesterday's Apec summit. Report, Page 18 Picture: AP

Germany abandons hope of rate cut

By Ralph Atkins and Frederick Studemann in Bonn and Wolfgang Münchau in Frankfurt

The German government indicated yesterday it had given up any hope of a cut in interest rates this year as signs emerged from central bankers that European short-term rates will converge at 3.3 per cent over the next month.

Oskar Lafontaine, finance minister, said at a Franco-German economic summit in Bonn that his calls for a relaxation in monetary policy had been directed at the new European Central Bank, which does not come into operation until January 1.

Although Mr Lafontaine insisted his position had been falsely interpreted, his comments drew a line under a public confrontation with the Bundesbank, which has a revered independence in Germany and has recently resisted calls for cuts in interest rates. He said his aim was a "European" monetary policy that supported growth and employment as well as price stability.

In addition, Mr Lafontaine and Dominique Strauss-Kahn, the French finance minister, said they were looking to reach a deal on European corporation tax harmonisation during Germany's presidency of the European Union in the first half of 1999.

Mr Lafontaine linked the issue to Germany's demands for a rethink of its high contribution to the EU's budget. He said it was not acceptable that net recipient countries were offering companies tax breaks that encouraged relocation away from net contributing countries.

Hans Tietmeyer, Bundesbank president, said at the summit that he expected the process of interest rate convergence to be completed by the ECB governing council's meeting on December 22. Economic and monetary union begins on January 1.

The benchmark securities repurchase rate is 3.3 per cent in Germany, France, Austria and the Benelux countries. Reimut Jochimsen, president of the North-Rhine Westphalia state central bank, said a unilateral German interest rate cut would be counter-productive and potentially damaging at a time when there was sufficient liquidity in the economy.

Bankers wary, Page 3

Weapons inspectors return to put Saddam to the test

By Stephen Fidler in Washington, Andrew Parker in London and Roula Khalaf in Baghdad

United Nations arms inspectors return in force to Iraq today with clear backing from the US and Britain to put Baghdad's co-operation pledge to the test.

In a sign of deep scepticism about President Saddam Hussein's intentions, the US and Britain also said they were studying how to topple his regime.

Tony Blair, the UK prime minister, told his parliament yesterday that "with the US we are looking at ways in which we can bolster the opposition and improve the possibility of removing Saddam Hussein".

Mr Blair's official spokesman later backtracked to claim that removing the Iraqi leader was not a policy goal of the UK, although President Clinton had declared the same aim even as he accepted Mr Saddam's latest climbdown.

Washington and London withdrew their threats of immediate military action at the weekend after accepting assurances from Baghdad that it would allow the inspectors to resume work in Iraq. Mr Clinton had launched then aborted a bomber attack on Saturday.

Senior figures on both sides of the Atlantic said they now wanted inspectors from the UN Special Commission (Unscom) to test Iraq to the maximum as soon as possible.

William Cohen, the US defence secretary, said it would rapidly become clear whether Baghdad intended to comply. "We will see very quickly whether the deeds are going to match the words," he said.

A British minister repeated the message even more sceptically: "Obviously, they [Unscom] are going to come to a crunch point very shortly. It's going to be days, or at most weeks, before they come to a point at which the Iraqis stop them."

In Baghdad, UN officials said 84 weapons inspectors out of more than 100 suddenly evacuated last week would arrive in Iraq today, with the rest expected tomorrow.

Fixer pulled Saddam back, Page 8
Editorial Comment, Page 17

BMW seeks UK pledge over euro

By David Wighton, Graham Bowley and Juliette Jowit in London

BMW has sought reassurance from the UK government that Britain will seek early membership of the single currency.

The German carmaker wanted the reassurance before committing itself to a £1.5bn ($2.5bn) development programme at its Rover subsidiary's threatened Longbridge plant near Birmingham, England.

Rover is hoping in the next few days to secure an agreement with unions over new working practices and job cuts of up to 2,500 aimed at stemming heavy losses. If agreement is reached and the investment goes ahead, BMW is also expected to request a £200m package of UK and European Union aid.

But the company is concerned about whether to invest in Longbridge if Britain is likely to stay out of the single currency in the medium term.

Bernd Pischetsrieder, BMW chairman, has previously issued stark warnings about the dangers to UK manufacturing of a prolonged period outside the euro.

A Rover official said: "I am sure BMW has sought reassurance about the single currency."

BMW's concerns will be seized on by those in the UK cabinet campaigning for the government to give a clearer indication of the timetable for joining the euro.

But a spokesman for Peter Mandelson, the pro-euro trade and industry secretary, insisted that BMW had not been given any special assurances.

"It is natural that they would like to get a feel of where we are on this. But they will have been given the standard line that if it is a success and in our economic interests to join, we will join."

BMW is known to believe that the crisis at Rover could have been avoided if the UK had opted to join the euro in the first wave. "Pischetsrieder would have made that point forcibly," said an industry insider close to BMW.

The company would not comment on whether it had sought reassurance, but said: "We would like to see Britain as part of Emu [European economic and monetary union]. The British pound is overvalued because of its high interest rates."

BMW is planning to invest £1.5bn in the ageing Longbridge plant to build lines to make the new Mini, the MG sports car and a new medium-sized car.

But it is looking for at least £200m of public money to subsidise the programme and has warned that production of the new medium-sized car could be switched to Austria or Hungary.

No formal request for aid has yet been lodged, but ministers recognise a generous package will be required to safeguard jobs at Longbridge.

Lex, Page 18

WORLD MARKETS

STOCK MARKET INDICES		
New York:		
Dow Jones Ind Av	8,980.57	(+61.28)
Nasdaq Composite	1,883.61	(+15.62)
Europe and Far East		
CAC40	3,621.88	(+59.52)
DAX	4,783.77	(+144.12)
FTSE 100	5,510.6	(+47.3)
Nikkei	14,428.27	(+180.06)
US RATES		
Federal Funds	5¼%	(5.0625%)
3-mth Treas Bills: Yld	4.529%	(4.468%)
Long Bond	99%	(100⅛)
Yield	5.258%	(5.242%)
OTHER RATES		
UK: 3-mo Interbank	6⅞%	(6⅞%)
UK: 10 yr Gilt	131.38	(131.49)
France: 10 yr OAT	133.65	(133.84)
Germany: 10 yr Bund	104.47	(104.51)
Japan: 10 yr JGB	108.46	(108.75)
NORTH SEA OIL (Argus)		
Brent Dated	$11.085	(11.40)

GOLD		
New York Comex	$295.1	(296.6)
London:	$294.85	(295.55)
EXCHANGE RATES		
Dollar		
New York:		
£	1.676	(1.6635)
DM	1.66915	(1.6845)
FFr	5.5977	(5.649)
SFr	1.377	(1.387)
Y	120.18	(122.78)
London:		
£	1.6755	(1.6658)
DM	1.6668	(1.6892)
FFr	5.60	(5.6654)
SFr	1.3722	(1.3917)
Y	119.79	(122.225)
Tokyo Close		Y 121.95
Sterling		
DM	2.7925	(2.8138)

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WORLD NEWS
EUROPE

ABDULLAH OCALAN ROW OVER EXTRADITION OF PKK LEADER

Italian sympathy for Kurdish issue makes Turks fearful

By Christopher de Bellaigue

The moustachioed figure of Abdullah Ocalan could be mistaken for any number of economic refugees who have fled the Middle East for western Europe, but his is an altogether uncommon case.

He is the international face of armed Kurdish nationalism and Turkey's most wanted man. As such, he has the potential to cause a serious rupture in relations between two Nato allies. When Mr Ocalan was arrested at Rome airport last Thursday night, Mesut Yilmaz, Turkey's prime minister, said it was the "heaviest blow" meted out to the Kurdish Workers party (PKK) since Mr Ocalan set it up in 1978. Now, Turkey and Italy are locked in a row over his extradition and it is the PKK that can smell a victory.

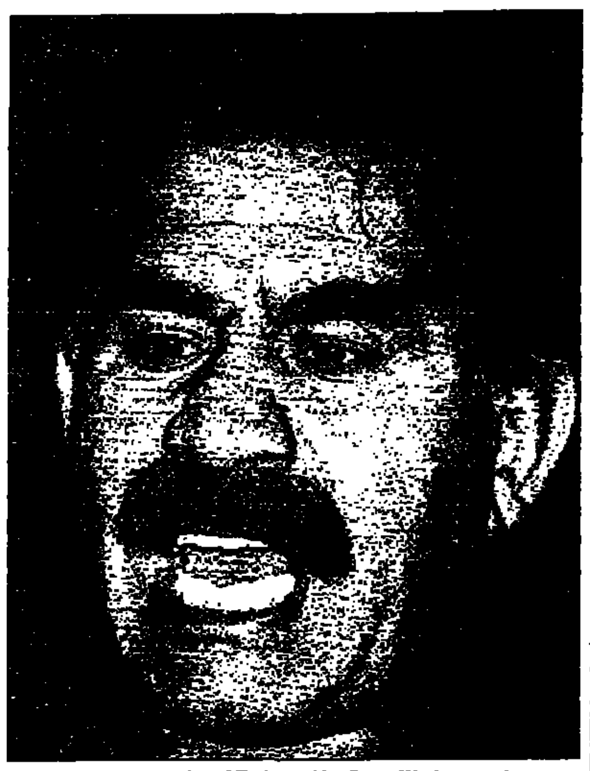
The importance to Turkey of Mr Ocalan's capture *would be difficult* to overestimate. For 14 years he has led an armed struggle for Kurdish autonomy in the country's Kurdish-majority south eastern provinces. Fighting Mr Ocalan's Marxist PKK in a war that has taken 30,000 lives costs Turkey some $7bn a year to wage and keeps millions of Kurds a resentful minority. Thanks to the uprising, much of Turkey's south-east is an economic wasteland.

But Mr Ocalan's importance is just as discernible beyond the south-east and his hand has been felt on almost every area of Turkish policy.

This influence, baleful from Ankara's viewpoint, was rarely more evident than last month, when Turkey threatened war if Syria, Mr Ocalan's intermittent base since the early 1980s, did not formally cut its support for him. Syria complied. But Turkey's relations with Russia were then stretched uncomfortably when Mr Ocalan made a request for asylum there. Earlier this month, Turkey enraged another neighbour, Iraq, when up to 25,000 Turkish troops struck deep into *northern Iraq in search of* PKK rebels who had crossed the border from Syria.

Arguably, Mr Ocalan exerts as much influence over Turkey's relations with Europe as the policy-makers in Ankara. By brutally suppressing even mild forms of minority nationalism, Turkey has watched its human rights reputation slide and, with it, its chances of getting into the European Union. Relations with Germany, where the PKK collects millions of dollars annually from expatriate Kurds, have long hinged on the attitude adopted by German courts to the PKK.

Even before Mr Ocalan arrived in Rome from Moscow, Kurdish issues had inflamed Turkey's relations with Italy, which recently allowed the "Kurdish parliament-in-exile", a PKK front, to meet in Rome's parliament building. All this explains Turks' elation when they heard of Mr Ocalan's arrest. Their desperation to try him is measured by the government's readiness to scrub capital punishment from its statute books, erasing one possible Italian objection to his extradition. *With the autocratic and* inspirational Mr Ocalan behind bars, Turkey hopes the PKK, weaker militarily than it has been for some years, will collapse.



Abdullah Ocalan: leader of Turkey's Kurdistan Workers party

But the Kurdish sympathies of Green and Communist members of the coalition of Massimo D'Alema, boosted by the recent convergence on Rome of thousands of Europe-based Kurds, has made many Turks fearful. Should Italy accept Mr Ocalan's asylum request, the PKK leader would have a perfect Euro*pean base in which to* replace his combat fatigues with a suit and tie, and transform himself into a statesman. That eventuality was evoked by Musa Kaval, a member of the Brussels-based parliament-in-exile, who said: "For years, Israel refused to talk to Arafat, and South Africa interned Mandela. Here, too, the time has come to hand diplomacy the initiative."

This is what Turkey's generals want to hear least. With each fresh casualty in the gorges of what the PKK *refer to as northern Kurdi*stan, it becomes harder for the sort of weak coalition government currently in place to talk about even limited cultural autonomy for the Kurds.

FRANCE CALL FOR 60,000 'SANS-PAPIERS' TO BE ALLOWED TO REMAIN

Let immigrants stay, say Greens

By Robert Graham in Paris

France's Green party has broken ranks with the government's immigration policy, calling for some 60,000 illegal immigrants to be allowed to remain in the country.

The call was made over the week-end by Dominique Voynet, the Green's minister of environment, who told a party congress: "I am being neither cynical nor naive when I say those without their papers in order must be allowed to regularise their position: this is being generous and realistic."

This call was backed by Daniel Cohn-Bendit, the charismatic May '68-era student leader, who at the weekend was adopted as the *Green's leading candidate in* next year's European parliamentary elections.

Their comments provoked a hostile reaction yesterday from other members of Prime Minister Lionel Jospin's Socialist-led coalition. "It is out of the question to consider regularising the *position of all* those without proper papers," said Pierre Muscovici, the minister for Europe.

Immigration is a highly emotive issue in France, with the right taking a hard line insisting on repatriation of all those who have illegally entered the country.

In contrast, the left has embraced the cause of illegal immigrants, the *sans-papiers*, whose sit-ins in churches and hunger strikes have received noisy support from intellectuals .

Since taking office 18 months ago Mr Jospin has *sought a careful balance* between checking the flow of illegal immigrants and humanitarian concerns for those seeking to regularise their situation.

The government ruled out a full-scale amnesty, aware this would set a precedent.

Under new regulations introduced in June 1997, some 140,000 people applied to stay in France either on the grounds of family unification, political persecution in their country of origin, or long stay.

The bulk of these applications have been processed and the interior ministry has let it be known about 80,000 applications are expected to be approved.

Since the summer both the Greens and the Communists have been pressing Mr Jospin to allow even those whose applications have been refused to stay in France.

They argue the system of *enforced repatriation is* inhumane and expensive.

Air France pilots are already boycotting repatriation flights.

Monaco court confirms money laundering sentence

Monaco appeals court yesterday confirmed a 12-year prison sentence on Moshe Binyamin, an Israeli citizen, for laundering drug money, writes **Robert Graham in Paris.**

It was the first money laundering case to come before the principality's courts, largely staffed by French judicial personnel, under legislation passed in 1993. In addition to the prison sentence, Mr Binyamin was also fined FFr100,000 ($17,650) and had $5m worth of assets confiscated.

Mr Binyamin, Italian-born with residence in the Netherlands, was arrested in 1995 after he had tried to deposit $5.5m in cash at the Edmond de Rothschild bank in Monaco. In the 1980s he had fallen foul of the authorities in both Bolivia and Brazil for drugs trafficking offences.

The judicial investigation strained relations between the French justice ministry and the principality over how to treat the affair which threatened to damage the name of Monaco offshore banking.

According to Le Monde, Gaston Carrasco, Monaco's chief public prosecutor, sought at one stage to have a young investigative judge removed from the case. But the French justice ministry threw its weight behind the prosecution of Mr Binyamin.

Aircraft groups edge closer to merger

By Alexander Nicoll in London and David Owen in Paris

Six European aerospace companies yesterday told their governments they had reached "a wide measure of agreement" on issues surrounding the creation of a unified European aerospace and defence company.

However, their confidential report fell short of the plan demanded by ministers in July and was seen in the industry as a holding measure designed formally to meet the governments' request while negotiations continue between companies on possible mergers or alliances.

The report was submitted by the four Airbus consortium partners – Aerospatiale of France, British Aerospace (BAe), Construcciones Aeronauticas (Casa) of Spain and DaimlerChrysler Aerospace (Dasa) of *Germany* – and Finmeccanica-Alenia of Italy and Saab of Sweden, in which BAe holds 35 per cent.

Following demands for a cross-Europe rationalisation from the British, French and German governments last December, the Airbus partners agreed earlier in the year on the principle of uniting into a single aerospace and defence company big enough to challenge American rivals.

The company would be listed on the stock market and would have a single management. The discussion process has since widened to include the Spanish, Italian and Swedish governments and companies. The six governments are working to remove export controls, pool research spending and harmonise procurement in order to facilitate industry rationalisation.

However, state ownership, especially in France, remains the biggest obstacle to a "big bang" merger of BAe, Aerospatiale and Dasa which would be followed later by the addition of the other companies. With no timetable set by France for full privatisation of Aerospatiale – though it is being partially privatised – BAe and Dasa have *discussed a possible bilateral* merger and a number of other potential deals are being mooted.

Saab said yesterday: "The next step will be for the governments concerned to discuss how several of the outstanding questions are handled. This includes, for instance, the state interests and research co-operation." The six companies said an integrated European Aerospace and Defence Company (EADC) was the "right target structure", and that their report addressed questions including "government rights and safeguards in EADC."

This is a key issue for France, which last week appeared to take a step in preparations for an EADC with approval by the Dassault Aviation board of the transfer of the state's 46 per cent stake in the group to Aerospatiale. Dassault, which makes Rafale and Mirage fighters, has not been a part of EADC discussions. Last week's move has not entirely removed doubts about the attitude towards rationalisation by Serge Dassault, head of Dassault.

NEWS DIGEST

STATE AID INQUIRY

Brussels to investigate east German shipyard

The European Commission will next week start a formal state aid inquiry into the Warnow Werft shipyard in east Germany in spite of pleas by the German government to reconsider. The yard, owned by Kvaerner, the Anglo-Norwegian construction and engineering group, has exceeded the capacity limits imposed under a 1992 deal, which allowed aid to be given to Warnow provided it stuck to strict production ceilings.

According to European Union officials, Warnow is likely to produce more than 100,000 compensated gross tonnes this year, 15,000 tonnes over capacity. At a meeting of industry ministers in Brussels yesterday, Germany argued the increase in production was temporary and linked to an order for an offshore oil platform which has to be completed by 2001. It also argued that from 1998-2001, average production was likely to be around 67,000 tonnes – well below the 85,000 tonne capacity limit. Other member states said they sympathised but insisted the 1992 agreement had to be adhered to. **Emma Tucker, Brussels**

CREDIT LYONNAIS

Price due for clause

The European Commission will tomorrow set a price of FFr15.8bn ($2.7bn) for the sale by Crédit Lyonnais, the troubled French bank, of a penalising loan and profit participation clause.

The clause was imposed by the European Commission under the bank's original 1995 rescue plan, and stipulated that Crédit Lyonnais had to pay a substantial proportion of its profits back to the state. This was considered necessary to ensure that profits made by the bank as a result of its bail-out by the French government would not be used for further expansion.

Cancellation of the clause was necessary ahead of the bank's privatisation next year. The clause will in effect be sold to EPFR, a government entity set up to help rescue the bank. An evaluation carried out by Arthur Andersen suggested a price of FFr19bn. **Emma Tucker, Brussels**

KOSOVO DISPUTE

Talks offer turned down

Kosovo Albanian leaders and western mediators have turned down an offer by the Serbian government to renew direct talks tomorrow. They said nothing could come of such a meeting and questioned Belgrade's sincerity.

Milan Milutinovic, president of the Serbian republic, issued the invitation on Saturday, saying only dialogue and political means could settle the conflict in the Serbian province. Fehmi Agani, a senior adviser to Ibrahim Rugova, leader of the main Kosovo Albanian party, said the two sides were too far apart for face-to-face talks but that indirect negotiations would continue with the mediation of Chris Hill, US envoy. Mr Hill, invited by Belgrade to attend the talks as a "guest" but not as a mediator, had prior engagements in Vienna and would not join Mr Milutinovic in Kosovo, a US diplomat said.

The only direct contact between the two sides in May achieved nothing. It was soon followed by a government offensive against ethnic Albanian villagers harbouring pro-independence rebels. **Guy Dinmore, Belgrade**

CZECH ELECTIONS

Rebuff to Social Democrats

Czech voters in municipal and Senate elections delivered a rebuff to the minority Social Democrat government at the weekend, underlining the precariousness of its position.

In the first round of voting for the 27 Senate seats up for re-election, Social Democrat candidates led in only three constituencies and went through to a run-off next weekend in 15. The Civic Democrats of former premier Vaclav Klaus led in 13 and went through in 22. A coalition of four centre-right parties led in 10 and progressed in 14.

In the municipal elections, the Social Democrats won 17.5 per cent of the vote against 24.3 per cent for the centre-right Civic Democrats and took only 7 per cent of the seats. The Civic Democrats led in all the big cities and in every district in Prague.

The Social Democrats formed a minority government after general elections in June. The two parties have agreed to examine changing the electoral system to make it easier for bigger parties to win a majority. The run-off elections for the upper house will be closely watched because if, as looks likely, the two big parties hold 12 seats, they would have the three-fifths majority needed to push through such changes. **Robert Anderson, Prague**

AIR FRANCE

Cabin crew to strike

Air France flights are expected to be seriously disrupted by a two-day cabin crew strike, which begins today. The airline, due to be privatised next year, has warned passengers that 45 per cent of long-haul flights and 40 per cent of short distance and domestic flights are likely to be cancelled.

The disruption will affect both Orly and Roissy airports in Paris. The strike has been prompted by demands to change the system of work rotas and to end a two-tier salary scale that penalises new employees. In June, pilots caused losses of over FFr1.2bn ($211m) by a crippling strike over cost-cutting moves. **Robert Graham, Paris**

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German prices fall further

By Ralph Atkins in Bonn

Further evidence of the downward pressure on prices in Germany emerged yesterday, with official figures showing wholesale prices fell by 4.7 per cent in the year to October – the biggest year-on-year drop for more than 11 years.

The decline could feed through to further reductions in the coming months in Germany's annual inflation rate, which dropped to 0.7 per cent in October. With inflation in France also at an exceptionally low level, recent trends in German prices have triggered fears that the core of the European economy might be on the verge of deflation.

Germany's wholesale price index, as compiled by the federal statistics office in Wiesbaden, has shown year-on-year drops in every month since April but the rate of fall has accelerated in recent months. August and September saw drops of 3.5 per cent and 4.2 per cent respectively compared with the same month a year before.

The virtual eradication of inflation in Germany has encouraged Oskar Lafontaine, finance minister, to call for monetary, as well as fiscal and wage policies to be targeted at encouraging economic expansion and job creation.

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Airports urged not to raise charges

By Jonathan Ford

Airport operators in Denmark and Ireland have come under fierce pressure from airlines not to raise landing charges next year to offset lost income when duty free retailing is abolished within the European Union.

In Ireland, a group of airlines led by Aer Lingus and Ryanair is appealing to the government to prevent Aer Rianta, the state-owned airport authority, from implementing a plan that could, they said, sharply increase landing charges.

A similar situation has arisen in Denmark, where SAS and Maersk Air are asking to refer a 15 per cent increase at Copenhagen airport to the Danish competition authorities, arguing that it should be subject to public scrutiny.

Aer Rianta and Copenhagen Airports, the privatised Danish group, are among the first operators in the EU to signal increases in landing charges to take account of the expected loss of duty free sales.

Although Aer Rianta is not raising charges, it is ending a scheme under which airlines received large rebates on new scheduled services from its airports. Airlines said the ending of the widely-used scheme would substantially increase their costs.

European carriers expect a rash of copycat increases as the July 1 deadline set for abolition by EU finance ministers looms. In the UK, BAA's three London airports have been given permission by their regulator, the Civil Aviation Authority, to raise landing charges by 15 per cent over two years.

Airlines are becoming militant about opposing increases because of concerns over rising costs at a time when airline traffic growth is slowing within the EU. Intra-European airline traffic, which increased by 10.2 per cent in 1997, is expected to grow by 8.8 per cent this year before slowing to 6 per cent growth in 1999, according to Salomon Smith Barney, the US investment bank.

Higher landing charges represent a particular headache for the low cost airlines, which have sprung up to take advantage of last year's liberalisation of the EU aviation market.

This is because such charges represent up to 10 per cent of their overall cost base, far higher than for conventional carriers.

"A lot of the growth in intra-EU traffic has been coming from the low cost operators starting new routes," said Michael O'Leary, chief executive of Ryanair. "It is commercial lunacy for the airports to penalise us by raising landing charges."

Intra-EU duty free sales are estimated to be worth about Ecu1.6bn ($1.8bn) and some regional airports rely on them for up to 40 per cent of their income, according to a study by Cranfield University.

Copenhagen Airports has written to carriers saying next year's proposed 15 per cent increase may not be the last. It is considering a further 15 per cent rise in 2000.

MOTOR INDUSTRY 'NO ECONOMIC REASONS FOR SALES TO SLIP'

Market for new cars falters in October

By John Griffiths

Western Europe's strong new car market growth this year faltered in October. But leading motor industry executives continue to insist that there are no sound reasons for the market to slip into recession.

Statistics released by the European Automobile Manufacturers Association (ACEA) show that total new car registrations last month in the 17 countries of the region were 1,172,078, up only 1.1 per cent year on year and well below the 5-10 per cent growth recorded in earlier months.

This lifted registrations for the first ten months of the year to 12,276,164 – up more than 6 per cent on the same period of 1997 and above the industry's predictions of around 3 per cent growth at the beginning of the year.

Both Sir Alex Trotman, the retiring chairman of Ford, and John Smith, General Motors' chairman, stressed during European visits recently that they believe there are no economic reasons for markets in either western Europe or North America to weaken over the next year. "The only reason for a recession would be if we were determined to talk ourselves into one," said Sir Alex.

Despite ACEA describing last month's slowdown as "significant", its figures show that the ending of government new car purchasing incentives in Italy is by far the biggest factor for the slowdown. Italy's registrations were down 23.5 per cent year on year at 175,600 last month. Italy has been having a big impact on the total registration figures because the incentives have turned it into Europe's second largest market, behind Germany but above France and the UK despite last month's drop in registrations.

Registrations fell in five other markets in the region last month, but with the exception of the UK, down 0.9 per cent, they were among the region's smallest. In contrast, Spain, the region's fifth largest market, was up 20 per cent.

Volkswagen is continuing to strengthen its grip as the market leader. It captured a record 19.5 per cent of registrations last month, more than seven percentage points clear of General Motors, its closest rival.

West European new car registrations

January-Oct 1998

	Volume (Units)	Volume Change(%)	Share (%) Jan-Oct 98	Share (%) Jan-Oct 97
TOTAL MARKET	12,276,164	+6.0	100.0	100.0
MANUFACTURERS:				
Volkswagen group	2,188,957	+10.4	17.8	17.2
– Volkswagen	1,331,461	+10.1	10.8	10.5
– Audi	414,343	+4.3	3.4	3.4
– Seat	309,557	+10.2	2.5	2.4
– Skoda*	133,576	+41.2	1.1	0.8
PSA Peugeot Citroen	1,392,055	+7.4	11.3	11.2
– Peugeot	803,775	+6.1	6.5	6.6
– Citroen	588,280	+9.2	4.8	4.7
General Motors#	1,395,442	+0.1	11.4	12.1
– Opel/Vauxhall	1,325,050	–1.1	10.8	11.6
– Saab**	62,191	+26.2	0.5	0.4
Fiat group##	1,371,317	-0.4	11.2	11.9
– Fiat	1,062,276	-4.8	8.7	9.7
– Lancia	156,853	+2.9	1.3	1.3
– Alfa Romeo	149,944	+41.8	1.2	0.9
Renault	1,299,846	+15.0	10.6	9.8
Ford group#	1,268,676	-2.5	10.3	11.3
– Ford	1,249,101	-2.8	10.2	11.1
– Jaguar	19,575	+23.3	0.2	0.1
BMW group	709,787	+0.1	5.8	6.1
BMW	382,357	+2.5	3.1	3.2
Rover	327,430	–2.6	2.7	2.9
Mercedes-Benz	534,519	+25.7	4.4	3.7
Volvo	201,687	+3.3	1.6	1.7
Toyota	374,750	+16.1	3.1	2.8
Nissan	366,678	+5.2	3.0	3.0
Honda	189,032	+0.0	1.5	1.6
Mazda	185,407	+13.5	1.5	1.4
Mitsubishi	154,397	+0.6	1.3	1.3
Total Japanese	1,473,393	+8.9	12.0	11.7
Total Korean	320,797	+32.6	2.6	2.1
MARKETS:				
Germany	3,150,891	+4.6	25.7	26.1
Italy	2,076,400	-0.5	16.9	18.1
United Kingdom	1,998,743	+3.4	16.3	16.8
France	1,595,002	+12.9	13.0	12.2
Spain	970,340	+15.3	7.9	7.3

*VW holds 70 per cent and management control of Skoda.
#Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source : ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

IMF REVIEW BERN URGED TO HARMONISE DEFINITIONS AND RULES

Swiss tax system seen as inefficient 'jungle'

William Hall in Bern

The International Monetary Fund has urged Switzerland to reform its tax system to reduce inefficiencies arising from the differing corporate and income tax systems of the country's 26 cantons.

The IMF, in its latest review of the Swiss economy, described Switzerland's taxation system as a "jungle". It criticised a lack of harmonisation of tax rules across the Swiss Confederation, including different definitions of income tax bases and corporate tax schedules, and different deadlines for tax collection.

The problem was highlighted last year when Martin Ebner, Switzerland's best-known corporate predator, transferred the headquarters of his BZ Bank from the centre of Zurich to a small village in the neighbouring canton of Schwyz, to cut his tax bill. The differing timing of tax payments in the two cantons meant that BZ Bank was accused of escaping paying tax on its 1997 profits to either canton.

The IMF said the differing tax systems resulted in "high economic costs". The decision to harmonise personal income tax collection on a current-year basis by 2001 was "most welcome" as it would strengthen automatic fiscal stabilisers and enhance real revenue collections. However, new initiatives to promote the convergence of income tax base definitions were also urged.

The IMF said Switzerland should make the reform of sheltered sectors of its economy an "urgent priority". Overall protection in the agricultural sector remained "exceptionally high".

While welcoming Switzerland's efforts to balance its budget by 2001, the IMF noted that an ageing population and other pressures on social spending would result in a "difficult uphill battle to contain fiscal deficits".

The IMF expects Switzerland's gross domestic product to slow from a growth of just over 2 per cent in 1998 to 1.5 per cent by 1999, before picking up again in 2,000. It notes that the short-term inflation outlook is "benign" with consumer prices growing by 1 per cent next year, mainly due to a scheduled increase in VAT.

■ Swiss banks have become less popular, according to an opinion poll carried out on behalf of the Swiss Bankers' Association, which found that only 37 per cent of the 1,009 Swiss people polled believed the banks contributed to Switzerland's good reputation in the world. This compares with 73 per cent in 1995.

The number of Swiss with a positive or very positive view of Swiss banks fell from 64 per cent to 48 per cent over the same period. The poll was conducted in July, ahead of the announcement by UBS and Credit Suisse, the two biggest banks, that they would pay up to $1.25bn to settle US class actions launched by by Jewish Holocaust survivors.

Bankers wary of softer stability pact

'Golden rule' proposal is causing concern, writes **Wolfgang Münchau**

Economic indicators for euro-11 countries

	Sep 1998	Aug 1998	Jul 1998	Jun 98	May 98	Apr 98	1997	1996
Inflation (annual % change)	1.0	1.2	1.4	1.4	1.4	1.4	1.6†	2.2†
Unemployment (%)	10.9	11.0	11.0	11.1	11.2	11.3	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	71.6	69.7	65.6	63.2	760.8	667.7
Imports	n/a	n/a	58.4	61.4	57.0	60.2	671.4	594.2
Trade balance	n/a	n/a	13.1	8.3	8.6	3.0	89.4	73.5

	May-Jul/ Feb-Apr	Apr-Jun/ Jan-Mar	Mar-May/ Dec-Feb	Feb-Apr/ Nov-Jan	1997	1998
Industrial production (%) (3 mo over previous 3 mo)	1.0	0.9	- 1.3	1.4	4.1††	0.0††

GDP growth (%)	Q2 1998	Q1 1998	Q4 1997	Q3 1997	1997	1996
Over same quarter last year	2.4	3.8	3.2	2.8	2.5	1.6

* provisional — estimated † estimated due to Ireland, for other countries index numbers for 1995 and 1996 were used to estimate the monthly ones †† annual % change

Source: Eurostat

ECB watch

Europe's central bankers are increasingly concerned about plans mooted by key governments in the future euro-zone to soften the stability and growth pact. It is a calculable concern.

The pact, inspired by the previous German government, aims to eliminate structural deficits and bring public debt on to a sustainable trend. It imposes fines – subject to a political vote – on countries whose budget deficits exceed 3 per cent of gross domestic product, except in the case of a severe recession.

The pact is now part of European Union law, but EU law is hardly ever straightforward. Mario Monti, the EU's internal market commissioner, last month proposed to apply an economic interpretation to the pact – the so-called golden rule – that would distinguish between spending and capital investment. Under this rule, governments would be able to incur structural deficits for capital investments, but not for current spending.

Given that a structural deficit is loosely defined as the average deficit across the business cycle, this would in effect mean raising the acceptable floor for budget deficits euro-zone governments will be able to run from 0 per cent.

Not surprisingly, Mr Monti's ideas have been warmly received by Europe's socialist finance ministers, including Oskar Lafontaine of Germany, France's Dominique Strauss-Kahn, and most recently, Carlo Azeglio Ciampi of Italy – the country at which, more than any other, the stability pact was directed.

Mr Monti does not suggest the pact be re-written. He merely says politicians should take the golden rule into account when deciding whether to impose fines. Investment spending typically accounts for at least 2 per cent of gross domestic product in most countries. If a golden rule were applied in full, governments would therefore be able to incur structural deficits of 2 per cent or more throughout the business cycle.

Mario Monti: his ideas have been warmly received AP

Actual deficits tend to deteriorate in times of economic slowdown because of falling tax revenues and higher spending on unemployment benefit. The automatic stabilisers – the fluctuation margin around a structural deficit during an economic cycle – accounts for a maximum of about 2 percentage points of GDP in either direction. This means if a government runs a structural deficit of 2 per cent, the actual deficit will deviate between 0 and 4 per cent during the economic cycle, although usually in a smaller band.

Deutsche Bank Research estimates that the average 1998 structural deficit for the euro-zone is currently around 1.5 per cent. This means that several governments would exceed the 3 per cent ceiling in the next downcycle and risk being fined. Such a risk would be much reduced under a golden rule policy.

The new European Central Bank is concerned about austerity fatigue and could respond to any loosening of the stability pact – and therefore of fiscal policy in the euro-zone – by running a relatively tight monetary policy. While the ECB will not be able to raise interest rates because of the international situation, it may be discouraged from cutting interest rates further.

The consequence of this policy mix could be a relatively strong currency and a falling current account surplus – not an ideal policy mix for the start of economic and monetary union.

New euro payments system

By George Graham, Banking Editor

The first euro payments system went live yesterday, when the Euro Banking Association switched its system for settling Ecus over to a new network designed to handle 40 per cent of cross-border euro payments.

Until January 4, the EBA system will still be settling the Ecu currency basket, averaging about 7,000 payments worth Ecu50bn-Ecu60bn ($58bn-$69bn) a day. The new system is designed to handle around 200,000 payments a day, and has been tested at volumes of up to 60,000 payments an hour.

The main systems change still to be made before the launch of the euro next year is to alter the currency code in the EBA's electronic messages from XEU for the ecu to EUR for the euro.

While banks are expected to send many of their high-value payments through the Target payment system operated by the European Central Bank, the EBA network offers a cheaper alternative for less urgent payments.

Target is a real-time gross settlement system, in which payments are simultaneously debited from the payer's account and credited to the recipient's account. EBA, on the other hand, is a net settlement system, in which member banks tot up their payments through the course of the day and settle their net balance.

This is generally cheaper because it does not require a bank to put up so much cash for payments during the day.

US, Japan launch $10bn Asia crisis fund

By Peter Montagnon and Sheila McNulty in Kuala Lumpur

The US and Japan set aside their differences on trade last night to launch a joint finance and debt restructuring initiative which will raise at least $10bn to help kickstart Asia's struggling private sector and lead the way out of economic crisis.

But the move, which had been widely flagged as a leading contribution to the Asia-Pacific summit in Kuala Lumpur, seemed likely to misfire when it turned out the plan was embryonic, with virtually none of the details agreed between the two countries.

Senior officials from Washington and Tokyo had difficulty totting up the likely figures involved, though they said the US would contribute $3bn in extra export credit finance to the stricken countries.

This would be in addition to $2bn in insurance and guarantees to promote private-sector investment.

Japan will also contribute $3bn to a $5bn growth and recovery fund set up with the help of the World Bank and Asian Development Bank (ADB).

The sum is on top of the $30bn initiative announced last month by Kiichi Miyazawa, Japanese finance minister.

The two countries said they would host a meeting in Tokyo shortly to flesh out the details of the initiative.

The strategy aims to draw in extra money from both governments and the private sector to recapitalise the region's banks and support corporate-sector debt rescheduling.

Other governments as well as multilateral development banks would be invited to attend.

"This is not going to be a revolutionary 'big bang' solution," said a senior US official, "but a modest, quite sensible set of proposals that go right to the core of recovery in the region".

While the currency markets had stabilised and the afflicted countries had managed to rebuild their foreign exchange reserves, they still faced recession and badly needed private-sector economic activity to be resumed.

Though the US and Japan had differed over the launch of rescue funds in the past, both now saw eye to eye on this point. "We would like to do something new in the current situation," said a Japanese official.

An Asian Growth and Recovery Programme will be set up to help mobilise "significant private-sector financing" for countries which have undergone economic restructuring.

This will provide new incentives to speed the pace of bank and corporate restructuring.

It will also involve "innovative, cost-effective financing methods" which as yet have to be elaborated.

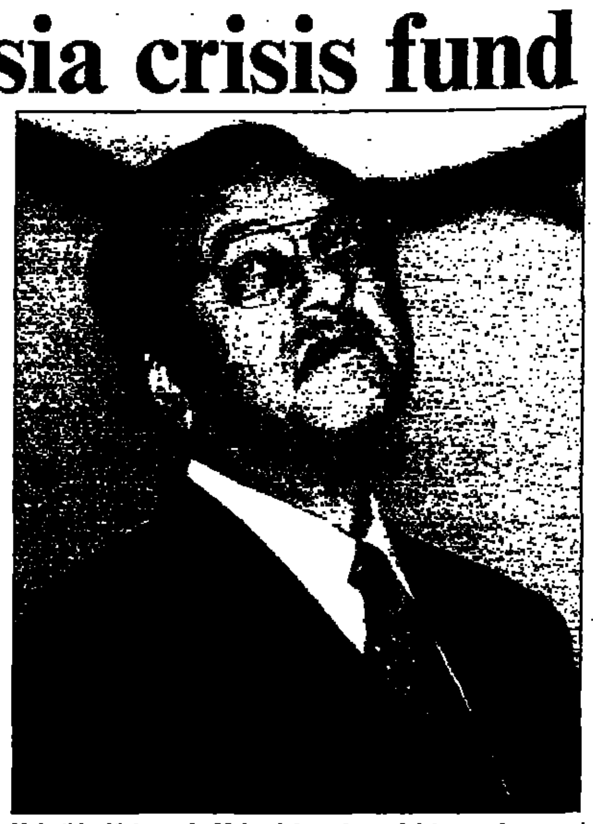
A main focus of the initiative is to promote debt restructuring.

Both countries believe failure to restructure private-sector debts is hampering resumption of growth, and are looking for ways debtors and creditors can be encouraged to take part in voluntary work-outs.

They said the World Bank and ADB should work closely with nations in the region in order to remove remaining obstacles to restructuring.

These may include legal or administrative changes to remove obstacles to restructuring, strengthened arbitration, or dispute settlement procedures, accelerated implementation of disclosure requirements and stronger asset disposal strategies.

Access to the funds would be tied to this framework, the officials said.



Mahathir Mohamad, Malaysia's prime-minister: unhappy at yesterday's APEC speech by US vice-president Al Gore backing a reform movement in Malaysia AP

New Tokyo stimulus gets cold reception

By Gillian Tett and Michiyo Nakamoto in Tokyo

The Japanese government's enhanced economic stimulus package, approved by the cabinet yesterday, received a lukewarm reception from markets and analysts.

The cabinet agreed to implement a package worth Y24,000bn ($197bn) in new spending and tax cuts, or more than 4 per cent of gross domestic product, in yet another attempt to pull the economy out of its worst post-war recession.

It will include at least Y17,000bn of pump-priming measures such as public spending and at least Y6,000bn of additional corporate and income tax cuts, over the next year, the ruling Liberal Democratic party said. It also contains the controversial Y700bn scheme to give "shopping vouchers" to poorer consumers.

This leaves the planned package even bigger than the LDP's "draft" package, unveiled last week and initially totalled around Y18,000bn. Taichi Sakaiya, head of the Economic Planning Agency, said: "Given such a huge, bold package the economy cannot fail to grow in fiscal 1999."

The expansion of the spending plans had limited impact on the markets. The Nikkei 225, the key stock market indicator, closed 1.12 per cent higher, at 14,428.27.

Economists warned even the Y24,000bn package might still not be sufficient to deliver a sustainable recovery. Peter Morgan, economist at HSBC Securities, said: "We are in this curious situation where the numbers keep getting bigger and bigger but there is less and less impact on the economy." The reaction partly reflected disappointment about the vagueness of the package and the fact that similar packages over the last year had a limited impact.

The Y24,000bn includes, for example, Y8,100bn spending on new public infrastructure, and a further Y5,900bn additional loans to the corporate sector to ease the current credit squeeze. Another Y6,000bn has been earmarked to cut the top rate of income tax from 65 per cent to 50 per cent, and corporate tax from 46 per cent to 40 per cent early next year.

The LDP also promised several billion yen worth of other "policy-directed" tax cuts, such as incentives to raise housing investment, and Y1,000bn worth of measures to create 1m jobs. Mr Sakaiya argued these measures would boost gross domestic product by 2.3 per cent in the next fiscal year.

The LDP did not offer new income tax cuts to poorer households, or offer to freeze the 5 per cent consumption tax, as some opposition groups are demanding. Some economists insisted the government's growth projections were far too optimistic. "Most of this is just smoke and mirrors. It will boost GDP by 1.5 per cent at most," said Russell Jones, economist at Lehman Brothers.

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Manila in Spratlys talks

By Peter Montagnon in Kuala Lumpur

The Philippines and China are exploring a possible arrangement to share the use of facilities being built by China on Mischief Reef in the Spratly islands as part of a plan to defuse tensions in the South China Sea archipelago, said Domingo Siazon, Manila's foreign minister.

The Philippines last week complained to China about the construction of concrete piers on the reef, which is only 130 nautical miles away from its coast. Mr Siazon said he feared the work might turn into the development of a landing strip extending into the shallow waters of the reef, but China said it was replacing a temporary fishermen's shelter.

Agreement to discuss the facility's possible joint use came in a meeting between Mr Siazon and Tang Jiaxuan, his Chinese counterpart, in the sidelines of the Asia-pacific summit in Kuala Lumpur.

Sovereignty over all or part of the archipelago is claimed by six governments: Vietnam, Taiwan, Malaysia, China, the Philippines and Brunei. All but the last-named have a military presence in the area, often using naval vessels masquerading as civilian ships.

Mr Siazon said China rejected a Philippine suggestion it should move its installations elsewhere in the archipelago, outside the Philippines territorial waters.

Beijing orders reshuffle of senior finance officials

By James Harding in Shanghai

The Chinese government is reshuffling some of its senior financial personnel as part of Beijing's efforts to rationalise and re-centralise control of the financial services industry.

Wu Xiaoling, director-general of the State Administration of Foreign Exchange (Safe), who has overseen the tightening of forex controls this year, is being moved from Beijing to become president of the Shanghai branch of the People's Bank of China (PBOC), the central bank.

Her departure makes way for the promotion of Li Fuxiang, Safe's deputy director-general, to head the administration in charge of China's $140bn foreign currency reserves and enforcement of foreign exchange rules.

Ms Wu's appointment will be formally announced tomorrow, when the PBOC's Shanghai branch becomes the first regional office of the newly restructured central bank. The PBOC is replacing its provincial offices with some nine branches covering large regions of China, along the lines of the US Federal Reserve.

The reorganisation of the central bank is intended to re-assert the authority of the head office in Beijing and eliminate some of the political meddling in the provinces that has made it harder for officials to expose financial corruption and incompetence.

Beijing's concern about the financial system's health is understood to be behind the decision to transfer Ms Wu from Beijing to Shanghai, China's commercial centre.

Ms Wu will take over from Mao Yingliang. The new Shanghai regional branch will oversee Shanghai and the coastal provinces of Zhejiang and Fujian to the south.

At the State Administration of Foreign Exchange, Mr Li is expected to continue the government's efforts to crack down on the illegal foreign exchange transactions that have been the target of more than 20 regulations since mid-September.

Economist seeks to cool growth hopes

By James Harding in Shanghai

One of China's best-known economists has sought to introduce a note of realism into what many people now feel is an unrealistic growth target of 8 per cent this year, warning it could encourage false reporting and reignite inflation.

The comments, in the People's Daily, the Communist party's official newspaper, suggest Beijing may be seeking to lower growth expectations this year.

China's economic data have been the subject of growing scepticism in recent months. Officials have insisted the politically sensitive 8 per cent target is attainable, even though the Asian economic crisis, weak domestic demand and industrial over-supply have produced a year of deflation, little growth in electricity consumption and low freight volumes.

Liu Guoguang, a special adviser at the Chinese Academy of Social Sciences, said China "should not put undue stress on the 8 per cent growth target". Fourth-quarter growth this year would have to exceed 10 per cent to achieve it; that would be "difficult, but not impossible". He also cautioned that the pressure to hit 8 per cent growth could encourage an investment surge, resulting in "overheating in 2000 and 2001".

China last week reported a spectacular case of false reporting, involving a grain distribution centre in eastern Anhui Province.

NEWS DIGEST

INDONESIAN POLITICAL CRISIS

Habibie shrugs off calls to quit and heads for Apec

B.J. Habibie, the Indonesian president, defied protests and precedents and pressed ahead yesterday with plans to attend the Apec summit in Kuala Lumpur today, despite growing calls for the resignation of his military chief and, increasingly, of himself.

Ali Alatas, foreign minister, said Mr Habibie would attend the Asia Pacific Economic Co-operation forum meeting for one day, despite concern that last week's protests and riots could lead to further unrest this week. Former president Suharto went to a summit in Egypt in May, only to return to a burning capital and a government unwilling to support him any longer. Like Mr Suharto, Mr Habibie is keen to show he is confident enough of his power to go abroad.

He ignored calls from student protesters and a range of opposition groups to sack General Wiranto, chief of the armed forces, who is accused of provoking last week's violence by sending in armed civilians and allowing regular troops to shoot and kill at least eight students. Yesterday was peaceful, with only small protests in Jakarta and some larger rallies in other cities, but students are expected to resume larger rallies after today's Islamic holiday.

Mr Habibie yesterday formalised a recent offer to resign shortly after general elections, scheduled for May or June next year, rather than in December 1999 as planned. But the president has also detained 11 political activists in recent days. Ten were accused of political subversion yesterday. **Sander Thoenes, Jakarta**

SOUTH KOREAN ECONOMY

Growth outlook worsens

South Korea yesterday said it hoped for economic growth next year but admitted the timing and strength of any recovery would "depend critically on improvements in domestic confidence and the external environment", according to its latest quarterly letter of intent with the International Monetary Fund. The finance ministry had earlier estimated gross domestic product would shrink by 7 per cent in 1998 and grow by 1-2 per cent in 1999. Yesterday's letter offered no 1999 growth target. Seoul plans to stimulate the economy through easing monetary and fiscal policy, but analysts believe growth next year would largely depend on a recovery in Asian export markets and improved consumer confidence, hurt by rising unemployment and wage cuts.

South Korea predicted its current account surplus next year would fall to $20bn, or 7 per cent of GDP, from $37bn in 1998 due to a rise in imports after a sharp fall this year. Foreign reserves reached a record $45bn by the end of October and are expected to rise moderately in 1999. Seoul promised the IMF to take a tougher stance on restructuring of big conglomerates, or chaebol, by imposing credit restrictions. **John Burton, Seoul**

HONG KONG ECONOMY

Jobless rate hits 5.3%

Hong Kong's jobless rate hit 5.3 per cent in the three months to October, the highest level since records began in 1981, and the government warned the relatively high levels were unlikely to fall soon.

Until the economy began to move into recession this year, the unemployment rate was around 2 per cent. The total has risen rapidly and includes most sectors – from construction to financial services, retail to manufacturing. The rate briefly stabilised at 5 per cent for the three month periods to August and September. Private sector economists forecast unemployment would grow to 7 or 8 per cent during next year.

Companies reluctant to cut their staff have been opting to trim wages instead, and this trend is set to continue – despite a decision by Hongkong Telecom, one of the territory's biggest employers, to scrap its plans for an across-the-board 10 per cent wage cut. The deal should appease Hongkong Telecom's 13,500 workforce but is likely to cause dissent within the business community, where there have been calls to make pay cuts – or at least pay freezes – standard. **Louise Lucas, Hong Kong**

Nikko closes securities operations, Page 24

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.5	1.9	3.75	7.00	2.95
1993	11.6	1.1	3.22	5.86	2.78
1994	6.2	1.4	4.67	7.08	2.86
1995	–0.2	2.1	5.93	6.57	2.61
1996	–3.2	4.9	5.41	6.43	2.15
1997	–3.3	4.9	5.59	6.34	1.73
4th qtr.1997	–1.2	5.7	5.63	5.90	1.60
1st qtr.1998	–0.1	6.5	5.47	5.60	1.51
2nd qtr.1998	1.1	7.2	5.50	5.59	1.42
3rd qtr.1998	0.4	7.5	5.45	5.19	1.47
November	–1.1	5.8	5.64	5.86	1.61
December	–0.8	5.8	5.71	5.80	1.58
January 1998	–0.7	6.0	5.47	5.54	1.59
February	–0.2	6.5	5.48	5.61	1.51
March	0.6	6.8	5.48	5.64	1.44
April	1.2	7.1	5.48	5.63	1.41
May	1.3	7.3	5.51	5.66	1.42
June	0.9	7.3	5.51	5.49	1.42
July	0.6	7.3	5.50	5.45	1.37
August	–0.2	7.2	5.50	5.33	1.48
September	0.8	7.9	5.35	4.80	1.58
October	1.6	8.5	5.10	4.52	1.56

JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	–0.4	3.78	5.24	1.00
1993	3.0	1.4	2.95	4.16	0.87
1994	5.4	2.8	2.23	4.20	0.78
1995	8.2	3.2	1.22	3.39	0.88
1996	13.7	3.1	0.56	3.03	0.75
1997	8.8	3.9	0.59	2.19	0.87
4th qtr.1997	8.6	3.8	0.66	1.94	0.96
1st qtr.1998	9.5	4.5	0.94	1.88	0.97
2nd qtr.1998	7.9	3.4	0.64	1.63	0.99
3rd qtr.1998	7.9	3.9	0.68	1.39	1.03
November	8.9	3.2	0.56	1.74	0.96
December	8.9	3.8	0.87	1.71	1.00
January 1998	9.7	4.5	0.95	1.74	1.00
February	10.3	5.0	1.04	1.76	0.95
March	8.6	4.5	0.84	1.62	0.96
April	8.1	3.6	0.71	1.62	0.98
May	8.0	3.9	0.62	1.37	0.99
June	7.4	3.4	0.60	1.28	1.01
July	8.1	3.5	0.74	1.42	0.95
August	7.9	3.8	0.75	1.47	1.02
September	7.7	3.9	0.55	1.05	1.11
October			0.58	0.86	1.16

GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	9.7	6.4	4.34	6.46	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.0	8.1	9.52	7.80	2.45
1993	9.4	7.8	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995	3.7	0.6	4.53	6.82	2.00
1996	10.4	7.5	3.31	6.21	1.81
1997	8.4	6.2	3.32	5.65	1.45
4th qtr.1997	5.5	4.7	3.68	5.48	1.42
1st qtr.1998	5.1	3.6	3.54	5.01	1.32
2nd qtr.1998	6.3	4.0	3.61	4.89	1.22
3rd qtr.1998	6.0	4.2	3.51	4.39	1.25
November	6.2	4.6	3.74	5.56	1.48
December	3.7	4.5	3.73	5.32	1.40
January 1998	4.4	3.5	3.57	5.12	1.38
February	5.3	3.4	3.51	4.99	1.31
March	5.5	4.0	3.52	4.90	1.28
April	7.2	4.0	3.63	4.90	1.24
May	5.6	3.7	3.63	4.96	1.23
June	6.1	4.3	3.56	4.80	1.19
July	5.0	4.2	3.54	4.69	1.14
August	5.9	4.0	3.50	4.42	1.22
September	7.2	4.5	3.49	4.04	[illegible]
October			3.57	4.03	[illegible]

FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	3.9	8.2	7.94	9.08	3.69
1989	7.6	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.92	3.19
1991	–4.7	2.3	9.62	9.03	3.58
1992	–0.3	5.4	10.36	8.57	3.55
1993	1.1	–3.0	8.55	6.75	3.21
1994	2.5	1.7	5.84	7.21	2.99
1995	7.2	4.3	6.60	7.53	3.17
1996	0.6	–3.5	3.94	6.32	3.05
1997	6.4	1.6	3.46	5.56	2.58
4th qtr.1997	6.4	1.7	3.65	5.49	2.48
1st qtr.1998	9.4	4.3	3.58	5.03	2.23
2nd qtr.1998	9.9	4.7	3.60	4.95	1.98
3rd qtr.1998	8.4	4.8	3.55	4.52	2.18
November	6.9	0.7	3.89	5.58	2.57
December	6.4	1.7	3.69	5.33	2.44
January 1998	9.4	3.4	3.62	5.13	2.38
February	11.8	4.8	3.57	5.01	2.23
March	9.4	4.3	3.57	4.94	2.09
April	10.7	4.9	3.63	4.95	2.04
May	10.6	4.8	3.61	5.02	1.98
June	9.9	4.7	3.57	4.88	1.93
July	8.9	4.8	3.66	4.79	1.94
August	7.6	4.8	3.56	4.54	2.18
September	8.4	4.8	3.54	4.22	2.44
October			3.55	4.19	2.61

ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	7.8	8.1	11.24	10.54	2.71
1989	7.2	5.5	12.42	11.61	2.46
1990	9.2	7.0	11.98	11.87	2.84
1991	7.3	5.9	11.83	13.20	3.45
1992	6.9	3.1	13.86	13.29	3.63
1993	4.7	2.8	10.22	11.23	2.35
1994	6.6	3.6	8.48	10.56	1.67
1995	0.4	–1.8	10.38	12.22	1.72
1996	1.0	–0.3	8.75	9.43	2.19
1997	8.8	9.5	6.83	6.83	1.91
4th qtr.1997	8.1	10.4	6.35	6.02	1.69
1st qtr.1998	8.9	9.0	5.89	5.36	1.33
2nd qtr.1998	13.3	10.2	5.11	5.16	1.23
3rd qtr.1998	10.4	8.5	4.91	4.77	1.42
November	7.6	10.2	6.44	6.14	1.74
December	7.7	9.7	6.01	5.74	1.66
January 1998	8.0	9.1	6.03	5.50	1.47
February	8.5	8.8	6.09	5.38	1.34
March	10.1	9.0	5.56	5.21	1.19
April	12.9	9.7	5.18	5.16	1.13
May	12.7	10.2	5.07	5.22	1.26
June	14.2	10.6	5.10	5.10	1.31
July	11.9	9.8	4.85	4.98	1.28
August	9.6	8.6	4.93	4.80	1.36
September	9.6	7.2	4.98	4.53	1.61
October			4.49	4.49	1.89

UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	6.8	17.1	10.41	9.62	4.48
1989	5.9	17.4	13.96	10.11	4.36
1990	5.3	15.9	14.62	11.56	5.07
1991	2.4	7.9	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.9	3.5	5.99	7.40	4.01
1994	6.4	5.1	5.57	8.01	3.94
1995	5.9	7.3	6.77	8.16	4.15
1996	6.7	10.0	6.11	7.79	4.08
1997	6.2	11.2	6.94	7.02	3.59
4th qtr.1997	6.6	11.1	7.58	6.46	3.37
1st qtr.1998	6.8	10.3	7.55	6.02	3.05
2nd qtr.1998	6.1	9.6	7.57	5.80	2.85
3rd qtr.1998	5.9	9.2	7.67	5.50	3.08
November	6.8	10.6	7.65	6.59	3.47
December	6.7	11.7	7.71	6.33	3.33
January 1998	6.8	10.7	7.57	6.08	3.24
February	7.1	10.4	7.53	6.02	3.02
March	6.6	8.7	7.57	5.96	2.89
April	6.7	10.4	7.51	5.80	2.82
May	6.2	9.3	7.48	5.84	2.84
June	6.4	9.0	7.72	5.77	2.90
July	5.7	9.9	7.80	5.84	[illegible]
August	6.1	8.7	7.74	5.54	3.10
September	5.9	9.0	7.47	5.10	3.29
October	5.4		7.20	4.98	3.34

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yields: period averages of the gross dividend yield on the relevant FT-A world index.

BANANA DISPUTE WASHINGTON MAY JOIN ECUADOR IN SEEKING SETTLEMENT THROUGH WTO

US set to step back from confrontation

By Frances Williams in Geneva

A sign that the US may be backing away from its threat of retaliation over the European Union's banana import regime came yesterday when Ecuador, one of Washington's co-complainants at the World Trade Organisation, took the first step towards reconvening the WTO panel on the banana case.

Ecuador asked for WTO consultations with the EU on its new banana import arrangements, introduced after WTO panel and appellate body rulings that the previous system unfairly discriminated against Latin American producers.

Trade officials said yesterday they expected the US to join in any panel proceedings to decide whether the EU's new arrangements comply with WTO rules. Brussels has already said it would agree to establishment of a reconvened panel. The EU has been given until January 1 1999 to bring its banana import regime, which favours bananas from African, Caribbean and Pacific (ACP) nations, into line with international fair trade rules. However, the US and the five Latin American countries that brought the original WTO complaint say the new system is as discriminatory as the old.

This is the first case in which compliance has been disputed and it takes the WTO into uncharted legal waters. WTO rules say that arguments over compliance should be settled through the disputes system, if possible by reconvening the original panel which would have to report within 90 days.

The US originally sought a panel last summer but this was refused by the EU which said it would have to wait until new licensing arrangements were agreed in October.

Frustrated by continuing delays Washington subsequently said it would bypass the panel procedure and apply to the WTO for permission to retaliate once the January 1 deadline had passed. However, the prevailing view of legal experts is that this would be illegal in the absence of a WTO ruling that the EU is still breaking the rules.

Last week, the US government increased the tension by publishing a preliminary list of imports from the EU worth over $1bn on which it may impose 100 per cent duties. Brussels has responded by threatening a WTO case if sanctions are imposed.

Trade law experts say the US would not lose much time in opting for an expedited panel procedure rather than acting outside WTO rules. If the EU's new banana import scheme is judged illegal by a panel, the US would then be entitled to impose compensating trade sanctions.

WorldCom uses quirk in rules

By Alan Cane in London

MCI/WorldCom, the acquisitive US telecommunications group, is increasing its market share at the expense of profits by exploiting a quirk of US telecoms regulation.

It is charging its US customers less than the cost of delivering their calls to foreign destinations because, according to the rules, the more traffic it sends overseas the more inbound calls it is entitled to deliver in the US.

Recent figures show the company makes a substantial profit on its inbound business while its willingness to take a loss on outbound traffic means it can significantly undercut its competitors, including AT&T and Sprint, in long distance services.

The strategy represents a significant departure from conventional telecoms practice. WorldCom ends up with lower overall profitability than would be the case if it used conventional charging methods, but gains significant market share.

WorldCom's strategy emerges from the 1999 issue of TeleGeography, an authoritative US publication. It shows that in 1997, WorldCom lost $21.8m on outgoing international calls. It collected $500m from its US customers for the calls, but paid foreign operators $521.8m for delivering the calls overseas.

However, it received $135.8m from overseas carriers for delivering their calls in the US, giving it net revenues of $114m. By comparison, AT&T, the largest US long distance carrier, received $8.1bn from its customers and paid foreign operators $3.7bn for delivering their calls. It received $1.3bn from foreign operators giving it net revenues of $5.63bn for the year.

US regulatory policy, however, stipulates that US carriers are entitled to handle incoming calls based on the proportion of US outgoing traffic they originate. WorldCom charges foreign operators 31 cents a minute for calls which cost it only a few cents to deliver.

WorldCom said yesterday that it would no longer separate incoming and outgoing payment figures except for the purpose of making regulatory returns. The company looked at its incoming and outgoing network costs as a whole and it was these costs on which it based its prices to customers.

The most recently quarterly results for WorldCom and AT&T saw international revenues surge 52 per cent for WorldCom while AT&T's long-distance business fell by 3.7 per cent.

P&O's Indian harbour plans halted by protests

By Charles Batchelor, Transport Correspondent

P&O, the shipping and ports group, has shelved plans to develop a £310m ($516m) harbour on an ecologically sensitive coastline in India following protests by environmentalists.

P&O Ports said it would not be going ahead with the development at Vadhavan, 75 miles north of Bombay in the state of Maharashtra, because the local environmental protection authority had vetoed it and because of doubts about raising finance.

WWF-UK, part of the World Wide Fund For Nature, which has campaigned against the project, said: "P&O's climbdown should send a strong signal to multinationals that investments which undermine the principles of sustainable development will not be tolerated."

The port would have destroyed one of the last wildlife havens on the west coast of India and would have ruined the livelihoods of the fishing communities and the indigenous Warli people, WWF said.

P&O had proposed the construction of an all-weather port providing eight berths initially, but with capacity to expand to 30 later. It would have been capable of handling 250m tonnes of cargo with facilities to receive oil, coal and cement, and a passenger terminal.

WWF said local fisherman, indigenous people's organisations and dockworkers in Bombay had all campaigned against the project.

P&O, which had invested "several hundred thousand dollars" in a feasibility study, said the port would have ended transshipments of power station coal which was damaging the coast.

The project appears to have been halted after intervention by the independent Dahanu Taluka environment protection authority.

POLISH DEFENCE CONTRACT DASA AND BAE OFFER AIR FORCE UPGRADE

Europeans counter US offer

By Christopher Bobinski in Warsaw

British and German aerospace companies, backed by their governments, yesterday offered Poland a programme to upgrade military aircraft and train personnel. The joint bid is regarded as a counter offer to that made by the US to lease fighter aircraft to Poland in the run-up to its Nato entry next April.

The Polish air force is bedevilled by a lack of spare parts and shortage of funds for new aircraft. This means pilots are unable to put in the flying time required by Nato for training. Morale was further hit last week when two pilots flying a training aircraft crashed.

The "European" proposal sees Daimler Benz Aerospace (Dasa) together with Russian partners offering to upgrade the 22 MIG 29s which Poland has to bring up to Nato standards in time for its entry. At the same time, the Swedish airforce would allow Polish pilots to fly their Grippen aircraft. This is the fighter which Saab and British Aerospace are hoping to sell to Poland. Britain's Royal Air Force meanwhile, would provide Polish pilots with English language training and Nato flying experience in bases in the UK.

BAe are also hoping to sell or lease Hawk trainer craft to Poland. These would be assembled locally. The programme involves the local manufacture of engines and components for any future military aircraft Poland might buy as well as components for other BAe products. Poland's defence industry desperately needs new orders to survive.

The US offer is to lease Poland F-16 fighters to fulfil Warsaw's Nato obligations. If Poland took up the US offer, its ground installations would have to be adapted and personnel trained to service the aircraft. The European companies fear this would result in Poland eventually opting to buy F-16s.

NEWS DIGEST

CHINESE RAILWAY CONSTRUCTION

Beijing opens industry to rise in foreign investment

China plans to open its railway industry to further foreign investment, counting on RMB10bn ($1.2bn) worth of overseas funds for railway construction over the next five years.

Foreign companies offering advanced technology and managerial experience will be approved to set up wholly foreign-owned enterprises or Sino-foreign joint ventures. Total investment in railway construction over the next five years is expected to be around RMB350bn.

By the end of last year, roughly 4 per cent of foreign investment – or $5.17bn – had gone into railway construction, according to a report in the China Economic Times. As part of China's efforts to upgrade infrastructure and improve transport of goods and people, Beijing has announced plans to boost spending on railway construction to RMB45bn this year compared with RMB34.9bn in 1997. **James Harding, Shanghai**

THAI NEW VEHICLE SALES

First increase since crisis

New vehicles sales in Thailand during October showed their first year-on-year increase since the country's economic crisis began, figures released by Toyota indicated yesterday.

A total of 12,805 new vehicles were sold in October, 0.2 per cent up on the same month a year earlier, and a 23.2 per cent rise from September figures.

Car sales in Thailand are a main indicator of economic health, consumer confidence and the financial strength of the non-bank financial sector which extends hire purchase loans. Government economists see the flattening out of vehicle sales as one indicator that the economy is bottoming out.

New vehicle sales are still down 66 per cent year-on-year for the period January to October at 112,808 units. Passenger car sales continue to show weakness, dropping 29 per cent year-on-year in October. But strong sales of commercial vehicles and especially one-tonne pick-up trucks, up 16 per cent and 24 per cent respectively, helped push October's increase. **Ted Bardacke, Bangkok**

INTEL EXPANSION

Chipmaker eyes eastern Europe

Intel, the world's largest semiconductor manufacturer, is examining the long-term possibility of setting up a chip manufacturing facility, or "fab" in eastern Europe or the Baltic states.

The California-based group, whose microprocessors power most personal computers, already has chip-manufacturing operations in Ireland and Israel and generally prefers to expand existing facilities than build on new sites. But both the Ireland and Israel facilities have already been expanded – Intel's second "fab" in Ireland produces the latest generation of its Pentium II microprocessors.

As the North American and west European PC markets begin to mature, PC manufacturers and component makers are looking increasingly to regions such as eastern Europe, Latin America, India and China to grow more quickly. **Paul Taylor, London**

MICROSOFT CASE CHIEF EXECUTIVE DISPUTES WHETHER INTERNAL E-MAILS REPRESENTED COMPANY STRATEGY TOWARDS NETSCAPE

Gates denies concern over competition

By Richard Wolffe in Washington

Bill Gates, chief executive and founder of Microsoft, attempted to distance himself and his company from the fierce competition over internet software with Netscape Communications, a court heard yesterday.

In combative and often evasive exchanges with US government lawyers, Mr Gates disputed the meaning of internal e-mails from his senior executives and whether they represented company strategy towards Netscape.

He also denied the suggestion that he was concerned by competition with Netscape when he wrote about the importance of winning market share in internet software in an internal e-mail in 1996.

Mr Gates' pre-recorded evidence was played on video tape at the start of the fifth week of the Microsoft monopoly trial. Mr Gates was interviewed by government lawyers at Microsoft's headquarters this summer, but has not been called to appear in court as a witness.

The US justice department and 20 states accuse the world's biggest software company of abusing its monopoly power over the computer industry in order to crush its rivals. In particular, Microsoft allegedly sought to force Netscape out of the market for internet browsers, which allow computer users to read pages on the world wide web.

In his video-taped deposition, Mr Gates appeared keen to deny that browsers represented a different software market from other products, in spite of an e-mail reference by a senior executive to fighting a "jihad" over browsers.

The issue goes to the heart of whether Microsoft violated US antitrust laws by extending its monopoly in Windows – the operating software which drives more than 90 per cent of the world's computers – into the internet browser market.

Microsoft has now integrated its browser with Windows to create one seamless product, which the company says benefits consumers by improving its core software.

However, according to a January 1996 e-mail to his executives, Mr Gates treated the browser as a separate market, saying: "Winning Internet browser share is a very, very important goal for us." Mr Gates denied the e-mail was a reference to competing with Netscape. Asked if he was concerned by other browser companies, he said: "I don't know what you mean 'concerned'."

In another e-mail less than two weeks later, Mr Gates was determined to prevent Netscape from winning America Online (AOL), the largest internet service company in the world, as a customer. "We need to look carefully at any significant opportunity to gain share vs Netscape, and think carefully before AOL goes off and partners with Netscape," he wrote.

AOL has already testified in court that it finally partnered with Microsoft, not Netscape, because Mr Gates offered it a prominent position within Windows, and offered to pay marketing costs worth "tens of millions of dollars".

On video, Mr Gates rejected the suggestion in an e-mail from Paul Maritz, Microsoft's senior strategist, that winning browser market share was the company's "number one goal".

"He doesn't set the company-wide goals," Mr Gates said. "I remember that we agreed that it was an important goal. I'm not sure which one of us reached that feeling before the other."

Pinochet's detention continues to expose fault lines in Chile's society

Attitudes to the former dictator are defined by age and class, writes **Imogen Mark**

A lone van driving through Las Condes, Santiago's rich neighbourhood, with a large Chilean flag and a portrait of "mi general" at the weekend raised a chorus of cheers and friendly hooting from the onlookers and other drivers.

"Mi general," Chile's former dictator Gen Augusto Pinochet, meanwhile languishes in a London clinic, waiting to hear whether the House of Lords, Britain's highest legal authority, accepts his claim to diplomatic immunity as a former head of state.

If it does not, he faces extradition to Spain for questioning about his role in the torture and murder of his political opponents during his years in power.

But while his supporters have taken to the streets, at least in their strongholds in uptown Santiago, to protest against his detention, his opponents express their views more discreetly. They watched their words and bit their tongues during the 17 years of his dictatorship, and the habit dies hard, even after nearly nine years of democracy.

So the jubilation over his detention is expressed in cautious code. At a social gathering last week someone proposed a toast "To the 26 days!" – the number of days the general had by then spent in detention. Most of the 70 guests jumped up and raised their glasses.

There is a fear of reprisals. The blacklists and political dismissals during the dictatorship are still a vivid memory, while the risk of physical attack is very real: several leftwing members of Congress, a well-known Spanish artist and other figures have received death threats and hate mail. The number of bomb threats has trebled, according to the police, although all have been hoaxes.

At a diplomatic reception last week a naval officer warned a leftwing journalist: "If anything happens to Gen Pinochet, if his health deteriorates, if he goes to jail, then there'll be violence, there'll be deaths here."

One upper-class young woman says: "I don't talk about the Pinochet crisis at parties, we all avoid the subject now. We say it's a bore, a drag, there's nothing to say, but I feel if we talk about it we will quarrel, and I'm afraid of getting into a fight."

Many of the pro-Pinochet demonstrators who have taken to the streets are teenagers from uptown private schools.

"Most of my classmates just repeat what they've heard at home. Their parents tell them Pinochet saved us from communism, he saved the country, so they go and burn British and Spanish flags and shout outside the embassies just like going to shout for a football team," says one student.

But for a slightly older age group the detention has sparked off real debate and reflection.

"For the first time politics has stopped being a taboo subject, and we talk about the case at lunch, in the breaks, we talk about the issues of justice, and what is possible," says Maricarmen, a 23-year-old architecture student.

The hearing in the British House of Lords over the past two weeks, and the airing in the foreign press of the evidence against Gen Pinochet has had a big impact for her generation, she thinks. "If they all say, outside [Chile], that Pinochet was bad, then we know he must have been. And not even his own people, not even his lawyers, say he's innocent, that none of these things happened."

An even older age group – the 40 and 50 year-olds who lived through the leftwing Popular Unity government of Salvador Allende and then the dictatorship – are more ambivalent. Jaime Estévez, a former Socialist congressman, says: "I don't accept that Pinochet has diplomatic immunity. But I don't accept that Spain has the right to try him. He should be tried here."

There are a dozen cases outstanding against him for the "disappearance" of political prisoners. But as another former congressmen, Jorge Schaulsohn, points out, Gen Pinochet has parliamentary immunity as a senator, and "if a judge even tried to interrogate him, the army will shout, and that will be that".

Few Chileans think he will be brought to trial, or even interrogated by the Spanish judge who has brought the case. Most expect the British law lords to uphold an earlier court ruling, ensuring Gen Pinochet is released and back home within a couple of weeks at most.

Mr Estévez speculates that Gen Pinochet himself might make some voluntary gesture of goodwill and reconciliation. "He could express some remorse for the suffering he caused. And he could instruct the army people involved in the 'disappearances' to say where and when the prisoners died, and where their bodies were dumped."

He admits, however, that such a gesture is unlikely – "it's not in Pinochet's nature".

It remains to be seen whether the weeks in detention have softened or hardened the general's will.

Gen Pinochet: as a senator he has parliamentary immunity

Cuba edges towards Paris Club debt accord

By Pascal Fletcher in Havana

Cuba, starved of external financing and squeezed by a fall in commodity export earnings this year, has stepped up consultations with its Paris Club creditors about the possibility of unblocking stalled debt rescheduling negotiations.

Diplomats in Havana said there appeared to be a renewed willingness on the part of Cuba to seek solutions within the Paris Club for its foreign debt, which totals more than $10bn. The debt is an obstacle to the island's efforts to gain access to development financing and attract more foreign investment.

The consultations seem to have intensified following a visit to France in September by Carlos Lage, the Cuban vice-president, during which he met Francis Mayer, the Paris Club chairman. The contacts were being viewed as a positive development after more than a decade of stalled relations between Cuba and the Paris Club since 1986, when Havana halted payments on most of its debt.

Since September, the debt issue has been discussed by the Cubans with several visiting delegations from Paris Club nations, including Japan and Britain. The latest discussions took place last week with the Spanish foreign minister, Abel Matutes, whose three-day visit to Havana opened the way for a historic visit to Cuba next spring by King Juan Carlos of Spain.

Manuel Valencia, the Spanish foreign ministry's director-general of international economic relations, who accompanied Mr Matutes, said he was encouraged by the Cuban's government's interest in a Paris Club solution to the debt. "I think we are going to see positive movement," he said.

Paris Club officials were understood to be studying ways of moving consultations forward. One way would be to set up an ad-hoc group to focus on Cuba's debt. Cuba and Paris Club representatives were expected to meet next month.

US interest rate cut is less of a certainty

By Gerard Baker in Washington

Members of the US Federal Reserve's policy-making open market committee meet today in rather different economic circumstances from those in which they last gathered at the end of September.

Seven weeks ago, the turmoil in international financial markets was at its peak; stock markets were tumbling, currency rates were see-sawing, and strange and awful things were happening in credit markets.

The Fed responded, not only by cutting the Fed funds target rate, its key short-term interest rate, by a quarter of 1 percentage point at that meeting, but by repeating the dosage two weeks later in a rare inter-meeting move that pleased financial markets.

Subsequently, (Fed officials might say, consequently) the turmoil has dissipated. Stock prices are back within striking distance of their peaks of this summer.

The dramatic widening of spreads between relatively safe, liquid instruments, and riskier, illiquid assets, one of the most troubling features of the recent turmoil, is gradually being undone. And international markets have stabilised after positive developments in Japan, Brazil and elsewhere.

Now that conditions have improved so dramatically, will the Fed go back to policy auto-pilot and leave rates on hold at today's meeting? Not necessarily.

Two concerns linger among policymakers. First, there are continuing fears that, for all the gradual loosening of the ligatures on domestic financial markets in the last month, things have not quite returned to normal and investors remain nervous about international risks.

Secondly, whatever happens in credit markets, several of the Fed's leading policymakers believe that the much feared, but as yet elusive broader US economic slowdown, may now genuinely be around the corner.

Financial markets certainly look in better shape than they did a few weeks ago. The Fed's specific concern, that investors were, in Alan Greenspan's words, "disengaging" from markets, avoiding anything risky, and opting for safety and liquidity, has eased. With the recovery in stock prices, borrowers and lenders are meeting again on a much more equal footing in financial markets.

Mickey Levy, chief economist at Nations Bank in New York, says new issues of securities by his company have soared in the last three weeks, and are expected to continue to be buoyant for the rest of the year.

"Markets are still fragile but they are clearly repairing after the damage earlier this year," he says. "Given that financial markets were the Fed's concern, I don't think they should cut rates now," he adds.

But while the difference between the yield on risky assets and riskless instruments has narrowed, it has not completely disappeared, and some Fed officials may still be wary of declaring an end to the crisis.

Yet even if financial conditions no longer warrant the kind of aggressive easing that seemed imminent just a few weeks ago, some economists believe the broader economic picture justifies a further interest rate cut.

For more than two years the US economy has defied all expectations and continued to grow at an unusually strong pace – almost 4 per cent a year. Once again economists are forecasting a sharp slowdown for the next year.

Personal savings in the US are now negative; a factor likely to slow consumption growth. Meanwhile, business investment, the other big contributor to growth in the last few years, is also likely to slow as profits are squeezed.

Whatever happens today, one thing has clearly changed. The widely expected, sustained and aggressive easing by the Fed, so confidently forecast just a few weeks ago, is now no longer a certainty. If Mr Greenspan and his colleagues do move today, they are likely to want much clearer evidence of a slowdown over the next few weeks before they cut again.

On the web today

● Letter from Los Angeles ● Cost of mutual fund investment falls ● Bank of Canada lowers forecast ● Investment in Trinidad ● Ecuador nears IMF deal

http://www.ft.com/americas

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US interest rate cut is less of a certainty

METEOR STORM GLOBAL COMMUNICATIONS AT RISK FROM SANDBLASTING BY TINY PARTICLES FROM TEMPEL-TUTTLE

Sting in comet's tail for 500 satellites

By Clive Cookson, Science Editor, in London

The operators of more than 500 satellites in orbit around the Earth are taking precautions, wherever possible, to protect them against what scientists warn may be the strongest meteor storm since 1966.

Late this evening and early tomorrow morning Earth will pass through the dusty tail of an obscure comet called Tempel-Tuttle. Tiny particles, most of them smaller than grains of sand, will hit the upper atmosphere at 200 times the speed of sound.

The result, for viewers well placed on the ground, will be a spectacular display of shooting stars. But the sand-blasting could disable or destroy satellites.

The Leonid meteors – so called because they appear to emerge from within the constellation Leo – will present an "elevated" threat to spacecraft for about 12 hours, according to an official risk assessment by the US defence department and the space agency Nasa.

William Ailor, a satellite safety expert with the US Aerospace Corporation, says spacecraft are unlikely to be shot through with big holes, but "impacts of small particles will create an electrically charged plasma which can induce electrical shorts and failures in sensitive electronic components." The European Space Agency lost its Olympus communications satellite in this way to a stray meteor strike in 1993.

At the time of the last Leonid meteor storm in 1966 there were just a few primitive satellites in orbit. Now there are 500 to 600, ranging from scientific missions to commercial communications satellites.

In many cases the satellite operators can reduce the risk, by turning the spacecraft so that the most vulnerable parts face away from the oncoming meteors and by switching off high-voltage circuits.

But telecoms satellites will remain on active duty, transmitting telephone calls and computer data. If the Leonid bombardment is more intense than astronomers are predicting, some international telecommunications capacity could be lost.

Precise prediction of the strength and location of meteor showers is notoriously difficult. "If this reaches 150,000 particles per hour there will be all sorts of difficulty, but there may be only 1,800 per hour," said Tony McDonnell of the space sciences unit at the University of Kent in England.

The two most vulnerable individuals are the Russian cosmonauts, Gennady Padalka and Sergei Avdeyev, on board the Mir space station. During the predicted peak of the meteor storm, the two men will shelter inside their Soyuz escape capsule.

On the ground, conditions for viewing shooting stars are expected to be best in east Asia and Japan, between midnight and 5am local time. Many astronomers from the US and Europe have gone there to observe what they hope will be a spectacular show.

For those who cannot make the trip, Japan's National Astronomical Observatory is promising to broadcast live on the internet from several sites.

Annan's fixer pulled Saddam back from brink of conflict

Roula Khalaf reports from Baghdad on the last-minute manoeuvres that led to the Iraqi climbdown

While the world was braced for a US military strike on Iraq last weekend, one man was frantically working in Baghdad to avert it. Charged with a mission that carries enormous risk and little glory, Prakash Shah, the special representative of the United Nations secretary general in Baghdad, was at the centre of diplomatic efforts which resulted in an Iraqi decision to resume co-operation with UN weapons inspectors.

During last week, Mr Shah was speaking to Kofi Annan, the secretary general, three times a day, and held four separate meetings with top Iraqi officials, including Tariq Aziz, the deputy prime minister, in search of a way out of the crisis. His presence in Baghdad and contacts were essential because the secretary general could not appear to be too personally involved. Nor could he travel to Baghdad without a direct request by the UN security council, and the US and UK were opposed to such a move.

Since Iraq's decision had been so blatant a violation of security council resolutions, the diplomatic efforts centred on providing Baghdad with a face-saving formula that allowed it to claim it did not back down out of fear of a US military attack.

The idea of an appeal by Mr Annan, who had negotiated the February agreement which averted an earlier military confrontation, came from the secretary general himself. But he and Mr Shah worked on it for several days, after which Mr Shah delivered it orally last week to the Iraqis to test their reaction.

This shows that diplomacy can work if given a chance in *resolving conflicts*

Diplomats in Baghdad say Mr Annan finally decided to put it in a letter in spite of opposition from the US administration. The Iraqi reply was received by Mr Shah on Saturday afternoon, while US warplanes were on their way to strike Iraq.

"The secretary general's initiative in a direct appeal to President Saddam Hussein on the basis of his conviction that Iraq should be allowed to join the community of nations free of sanctions was a crucial factor," Mr Shah said yesterday.

"We arrived at a peaceful resolution of the crisis largely due to the close working relationship between the secretary general and the leaders of major powers such as the US, Russia and France. This shows that diplomacy can work if given a chance in resolving potential conflicts involving the use of force."

Mr Shah, former representative of India at the UN, was called out of retirement in March to perform the most delicate diplomatic task: smoothing the stormy relationship between Unscom, the UN weapons inspectors commission, and the Iraqi government so that disputes could be solved locally and not allowed to spin out of control.

A soft-spoken and affable man, Mr Shah is experienced in disarmament issues, having negotiated the chemical weapons convention on behalf of India in 1991 and 1992. He is a compromiser by nature who is sensitive to the plight of the Iraqi population under sanctions.

Seen by Unscom as something of an irritant, he is valued by the Iraqis as the only man who can relay their views to Mr Annan, whom they trust. With Iraq accusing Unscom of deliberately prolonging its inspections to maintain sanctions on Iraq, and the inspectors accusing Iraq of persistently concealing information, Mr Shah has succeeded in preventing crises from escalating several times in the past months.

Prakash Shah speaking to the press in Baghdad at the weekend after Iraq agreed to resume co-operation with weapons inspections Reuters

Last June, for example, when Unscom asked to take samples of warhead fragments for testing in a US laboratory, the Iraqis balked, claiming the inspectors would deliberately let the testing drag on for months. Mr Shah's intervention led to an agreement allowing the samples to be sent out but for the tests to be completed within one month.

Although visibly relieved that the most difficult chapter so far has been resolved, Mr Shah may face even bigger challenges in the weeks ahead. Another Iraq crisis could erupt before he leaves his post at the end of December. Iraq wants the comprehensive review of sanctions agreed by the security council to be held as soon as possible but Mr Shah says many members of the UN security council want Iraqi commitment to co-operate tested before the review.

Inspections are expected to begin in the next few days. With the US still prepared to act militarily, any hiccup could still lead to air strikes.

"The important thing is inspections and full Iraqi co-operation," says Mr Shah. "If Iraq co-operates fully in accordance with UN security council resolutions, then the council can proceed to conduct the promised comprehensive review, which appears to be the important signal for the future."

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Jewish settlers face up to life after Wye pact

By Judy Dempsey recently in Adora, West Bank

Ronit Orfige believes she is fulfilling God's will by living in Adora, a small, isolated Jewish settlement perched on a steep hill south-west of Hebron.

To give it up now, she insisted, would mean defeat for Israel. "I do not believe in any exchange of land for peace," she said.

But in the coming weeks, land around Adora will be handed over to Palestinian civilian control as part of the Wye accord signed last month between Benjamin Netanyahu, Israeli prime minister, and Yassir Arafat, president of the Palestinian Authority.

Although Mr Netanyahu has pledged not to dismantle any of the 141 West Bank settlements, Adora residents believe they could be vulnerable once, as Mrs Orfige put it, "the local Palestinians get a taste of power".

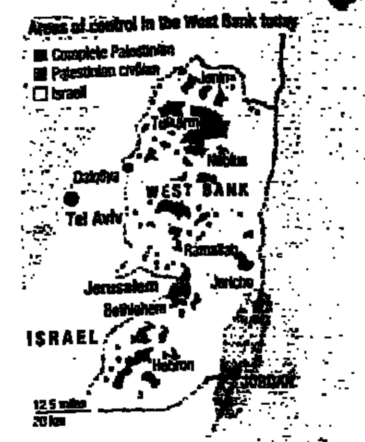
For this reason, the 73 families in Adora who first moved to this secular settlement 14 years ago are reconsidering their security needs – some, their future.

First they want the bypass linking them to the Jerusalem main road widened so that land either side will remain under full Israeli control.

"The plan is to have a long stretch of land, measuring 150 metres wide on each side of the road that will give us more protection," said Yitzhak Benizri, Adora's head of security. "This would allow Israeli troops to move unhindered. And the settlement would not be completely surrounded by Palestinian-controlled areas."

After last week's cabinet decision to ratify the Wye accord, Mr Netanyahu said 11 bypass roads would be built or expanded over the coming three months at an estimated cost of $500m.

Some of the money, said government officials, would be used to compensate Palestinian landowners whose land would be expropriated for those roads. But the military is already wary of building roads that will cut into Palestinian farm land.



One officer feared it would spark unrest among Palestinians whose land and villages are already separated from each other by settlements and bypass roads.

Palestinian farmers are concerned for other reasons as well, fearing some of the more radical settlers will defend the settlements even more aggressively.

In Adora there is a debate about improving security, with calls for electronic surveillance and fencing.

Some Adora residents balk at the idea of having to live in a kind of ghetto. But they dismissed suggestions that achieving peace might be made easier if stolen land was returned to the Palestinians.

Mrs Orfige insisted it was not stolen land. "We are simply reclaiming land for the Jewish people, as stated in the Bible," she argued. The thought that Palestinians might one day establish a state alongside the settlement angered her.

Yet in the cold light of the Wye accord, Mrs Orfige and her colleagues are reflecting more soberly about the future.

"To tell you the truth, you have to give up something for peace," said Mr Benizri, 52, who believes a Palestinian state is inevitable.

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ECONOMIC GROWTH PRIME MINISTER GIVES ASSURANCE TO BANKING AND BUSINESS LEADERS ON GOVERNMENT RESOLVE

Blair says forecast may be optimistic

By Robert Peston, Political Editor

Tony Blair, the prime minister, last night conceded that the chancellor's economic growth forecast may be too optimistic, but insisted government spending plans would not be revised. In his annual speech at the Lord Mayor's banquet in the City of London, Mr Blair said the government would "respond sensibly" if the "economy is weaker than we expect".

It was a striking statement to make less than a fortnight after Gordon Brown, chancellor of the exchequer, revised downward official growth forecasts in his recent pre-Budget statement to between 1 per cent and 1.5 per cent next year and between 2.25 per cent and 2.75 per cent in the following year.

Mr Blair was departing from tradition by concentrating on the domestic economy in the banquet address, which normally covers foreign affairs. His chief spokesman said it was important to convey to the business and banking audience that the government would not be panicked into sudden changes of economy policy.

Mr Blair tried to allay concerns that his government's commitment to increase public spending significantly over the coming three years may be risky. "To cut back on public investment at this stage of the cycle would be folly," he said.

He indicated it would be a good thing if public borrowing rose with an unexpectedly sharp slowdown in growth and consequent reduction in tax revenues and increase in social security spending. It would allow "the automatic fiscal stabilisers to work", he said.

Mr Blair made no comment, however, on whether this would represent a departure from the so-called "golden rule", or the chancellor's pledge that the public sector will borrow only for investment purposes over the course of the cycle.

However, he said predictions "about black holes in the government's finances" were nonsense. The chancellor has pointed out that there is a £33bn ($55bn) cumulative surplus of current spending over borrowing for the five financial years beginning next April.

"Steering a course of stability in an uncertain world" was his message, he said. "It may not be sexy enough for the headline writers but in my view stability is a sexy thing".

● Farmers were warned to brace themselves for further sweeping change to the agriculture industry yesterday as the government unveiled a £120m ($199m) emergency aid package, Andrew Parker writes. Nick Brown, agriculture minister, said planned reform of the EU Common Agricultural Policy must "reduce the burden currently imposed by the CAP on consumers and taxpayers".

Mr Brown has secured a one-off sum from the Treasury's contingency reserve to part cover the aid package. The rest of the money will come from the European Union.

Wanted: charismatic figurehead for London

The rapid approach of a new political power base in the capital is worrying Tony Blair, says **Deborah Hargreaves**

When Ken Livingstone led the Greater London Council, then one of the largest municipal authorities in the world, he erected a banner across the front of the council's headquarters on the south of the River Thames. The banner declared the number of Britain's unemployed. The banner was clearly visible from the Houses of Parliament on the north side of the river, and was intended by the Labour party's Mr Livingstone as a barb against the Conservative government led by Margaret Thatcher.

She abolished the GLC and with it the powerful position of the leftwing Mr Livingstone. She said the move would simplify local administration by handing over powers to the 32 boroughs that cover all of London except the City. But many believed she was taking revenge for years of attacks on her government.

Now Tony Blair, Labour's first prime minister for 18 years, wants to create a directly-elected London mayor and Mr Livingstone is keen to stand for the post. But in the past 12 years, the Labour party has moved to the right of the political spectrum and Mr Livingstone's leftwing views are as unpalatable to Mr Blair as they were to Mrs Thatcher.

Mr Blair is searching for an official Labour candidate for the mayoral election in 2000 which the Labour party is expected to win. Mr Livingstone last week pledged to ask party members in London to write his name onto the ballot paper if he is not selected as official candidate.

Labour is worried that Mr Livingstone would embarrass the party if he were voted in as mayor. Conservative party members are also concerned that their prospective candidate, Lord Archer, the controversial novelist, will embarrass them as details from his colourful past are dredged up.

William Hague, leader of the Conservative party, last week ignored pressure from some of his colleagues and cleared the way for Lord Archer to stand. In a full page editorial last week, London's Evening Standard newspaper decried the lack of talent in the current line-up for mayor declaring: "We are in a mess over London's first mayor."

The newspaper's concern is to see London represented by a charismatic, influential figurehead. Although the new mayor will wield little direct power, he or she will have an enormous personal mandate upon which to build a power base.

The reason for this is that the mayoral election will be a direct vote by residents in the 32 boroughs – up to 5m people.

The mayoral election will therefore potentially attract more direct personal votes than any person in British political history on a par with the numbers of votes cast for the presidents of Germany or France.

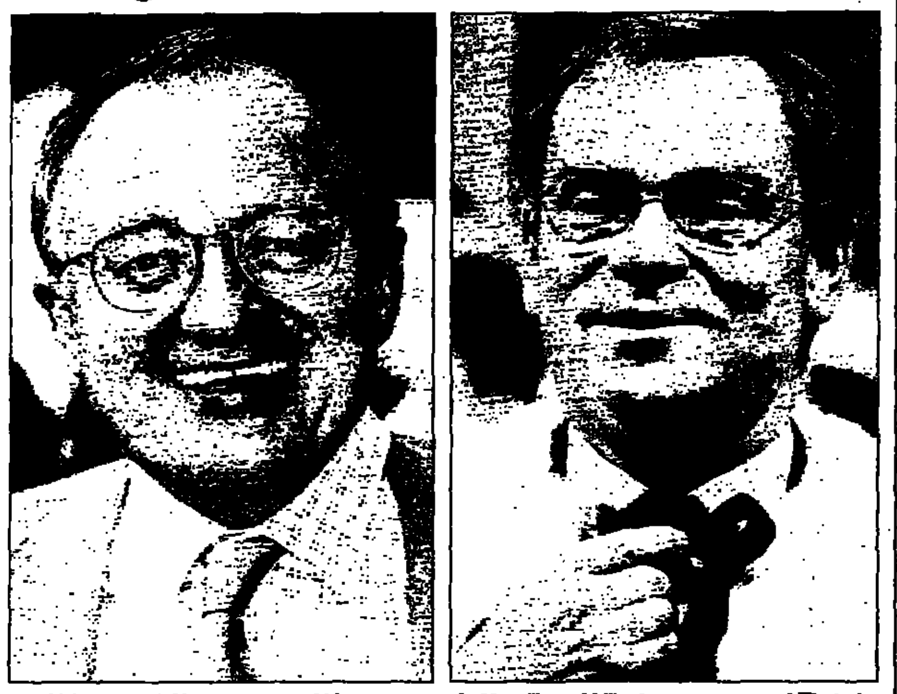
The mayor's powers will extend to transport, a new London development agency, the police and fire brigade and strategic planning. But unlike the old GLC, the new mayor will have no tax-raising power. He or she will also have no influence over health, education, social services and housing.

The London mayor will have access to a budget about a fifth the size of Rudolf Guiliani's in New York. The mayor will also have to work with the new 25-strong London assembly.

But a strong personality in the London job for the first time could define the mayor's office and certainly the style in which London is run. That could set the tone for the future and for other city mayors in Britain.

Jeffrey Archer and Mr Livingstone are well known in London. Other candidates mooted for the Labour party's nomination include Pauline Green, leader of the Labour MEPs in the European parliament, and Tony Banks, sports minister, who also served on the GLC.

The election may be 18 months away, but Mr Livingstone and Lord Archer are campaigning already. Mr Blair needs to find a candidate quickly to capture the popular imagination of Londoners if he wants to derail his leftwing critic.



Ken Livingstone (left) set out part of his programme in May: "I would like to see a proper ability to tax the most wealthy parts of London." Lord Archer, the Conservative candidate for mayor, is better known as Jeffrey Archer, the author of such best-selling novels as Kane and Abel and First Among Equals. He recently wrote: "Yes, I have made a number of mistakes in my life."

City is urged to 'keep leading the international pack'

The City of London has become one of the UK's strongest brand names, Lord Levene, the incoming Lord Mayor, said last night, **Alan Pike writes.** It was recognised as the world's greatest international financial centre, and was among the largest and most successful industries in the country.

"We are not keeping up with the pack," he said. "We are leading it, and we must do whatever is necessary to maintain that lead."

But, he added, he faced the job of promoting the City "at a time of change the like of which we have never seen . . . We probably only have one chance to get it right; once a market has been lost we may never get it back." The office of Lord Mayor dates from medieval times and covers only the City of London, which is home to many financial institutions and businesses. The new mayor to be elected in 2000 will cover the rest of the capital.

Army to aid police against year 2000 'bomb' risk

By Simon Buckby, Social Affairs Correspondent

The army and police are working together on contingency plans to cope with a possible emergency caused by the "millennium bomb", it emerged yesterday.

The army could provide air support and other help to move police from "hot spot to hot spot" if emergency services, hospitals, transport systems and other computer-controlled networks collapse because their processing chips fail to recognise the year 2000.

John Evans, chief constable of Devon and Cornwall and chairman of the Millennium Co-ordinating Committee for the Association of Chief Police Officers, confirmed that the military was involved in planning.

"Discussions are going on up and down the country with top army officers," he said. "From there, individual forces are building their plans to see what military assistance they will be able to make use of in the event of difficulties."

Suspicions of possible military involvement in providing police back-up from December 31 1999 were raised after a memo was leaked earlier this month in which Donald Dewar, chief minister for Scotland, suggested that Territorial Army soldiers could be needed to help maintain services.

However, the Cabinet Office yesterday played down the significance of the army's involvement. A spokeswoman said discussions were taking place as part of regular liaison between the emergency service and the army.

Mr Evans said that, in a separate move to prepare for the millennium, leave was being cancelled for all police officers over the four-day extended New Year bank holiday to ensure forces were up to strength.

Gwynneth Flower, managing director of Action 2000, the company set up by the government to urge businesses and services to defuse the bomb, suggested that up to half the country's employees would be called to work over the public holiday at the start of 2000, many to ensure that computer problems were solved.

'Elitist' name for skill scheme to be dropped

Simon Targett, Education Correspondent

The government is to drop the name of its initiative on lifelong learning, "University for Industry", after advisers warned that it was too narrow and elitist. Officials feared it could deter people who are out of work or in small businesses, thereby undermining the government's drive to close the skills gap with Britain's rivals.

John Field, of Warwick University, who is the country's first professor of lifelong learning, welcomed the prospect of a new name. "The name 'University for Industry' is a core problem if the idea is to take off: it is not memorable, it is misleading, and it is exclusive." He said the government should "take some risks and get rid of the gravitas and go for something unashamedly populist".

The government's decision, coming just weeks after ministers unveiled plans to invest £40m ($66m) in the UfI and to launch it in 2000, points to a sense of growing crisis at the heart of the government's lifelong learning policy. Ministers have ordered the transition team, headed by Lord Sainsbury of Turville, to conduct some market research to find an alternative name.

One idea is to call it Learning Direct, echoing the popular trend in selling insurance pioneered by Direct Line and conveying the idea of work skills which are accessible at the touch of a button. The name change would mirror early uncertainty over the image of the Open University, which was originally labelled the University of the Air. A minister said the government was anxious that the UfI did not become "just another academy for the highly educated".

The idea of a UfI, first developed by Gordon Brown, the chancellor of the exchequer, when he was a shadow minister, was to "do for the workplace what the Open University did for the home". But now, in government, the Labour party wants to remove both "university" and "industry".

A minister said the title "university" might put off people who view such elite institutions as "not for them", while "industry" would be too narrowly focused on people in the workplace. In its new guise, the UfI, offering sub-degree courses via the internet, would be marketed to people who required "upskilling" and who, having been made redundant, wanted to take courses from home.

The title Learning Direct is already used for the government's national learning helpline, and is next year to become the UfI's information and advice service.

NEWS DIGEST

NORTHERN IRELAND PEACE PROCESS

Republic's police issues warning to Continuity IRA

Commissioner Pat Byrne, chief of the Garda Siochana (the Republic of Ireland police) warned yesterday that "the full resources of the state" would be aimed at the Continuity IRA if it tried to disrupt the Northern Ireland peace process. The group is the only paramilitary organisation to reject the peace process and refuse to declare a ceasefire.

Eight senior figures from Republican Sinn Féin, political wing of the Continuity IRA, have recently been held and questioned in the republic and released without charge. Republican Sinn Féin declared after a meeting of its policymaking executive in the republic at the weekend that political resistance to the peace agreement would continue. It also vowed to "continue to give leadership to nationally-minded people throughout Ireland".

Mr Byrne said of the Continuity IRA: "If it is their intention – which I believe it is – to destabilise the peace process, the resources of the state will be utilised against them." But he was convinced that the mainstream IRA's ceasefire was holding.

● Soldiers from the British army's 16 Regiment, Royal Artillery, left their base in Armagh, Northern Ireland, by helicopter yesterday at the start of the exit from the region of 400 troops. When they are gone, there will be about 15,000 British troops in Northern Ireland, the smallest number since 1970.

ANIMAL WELFARE

Cosmetics testing to end

The government yesterday announced an end to the testing of cosmetic ingredients on animals in the UK. All British companies with testing permits have surrendered them voluntarily and no new licences will be issued, said George Howarth, the Home Office minister responsible for animal welfare.

The announcement, which follows a ban last year on animal testing of finished cosmetic products, was greeted with enthusiasm by some animal rights campaigners. Sir Paul McCartney, the former Beatle whose late wife Linda was a passionate campaigner, spoke of "great news for our civilisation and the animals". The vast majority of the 2.6m animal experiments carried out last year were for biological and medical research and pharmaceutical development. The government made clear yesterday that it had no intention of banning these. **Clive Cookson, London**

MOBILE TELEPHONE LICENCES

Auction could see $830m bids

The UK government auction next year of licences for the next generation of mobile phone services could attract bids of up to £500m ($830m) from companies anxious to share in a market expected to be worth £3.6bn by 2012.

This is the chief conclusion of one of the first financial analyses of the market for next-generation mobile services, known colloquially as UMTS (Universal Mobile Telecommunications System). UMTS will offer the combination of mobility and access to high-speed data. It will be possible, for example, to deliver multimedia, including full motion video, to a handset no larger than today's mobile phones.

The study, from stockbroker Henderson Crosthwaite, points out that while four licences are to be awarded, the government is keen to see participation from companies other than incumbents Vodafone, Cellnet, One-2-One and Orange, or their parent companies. **Alan Cane, London**

CITY OF LONDON

Rail link to open on 'euro day'

The Corporation of London, the municipal authority for the City, is to pay for the underground railway between Waterloo station and the City of London to open on January 1 so that bank staff can get to work to prepare their systems for the launch of the euro.

The Waterloo and City Line would normally have closed on January 1, but London Underground has agreed to open it after the corporation agreed to pay its costs, estimated at about £6,000 ($9,960). Financial institutions have spent months preparing for the single currency, but they will learn the final conversion rates for the 11 national currencies to join the euro only in the afternoon of December 31. Trading will resume in the new currency on Monday, January 4. The Corporation estimates that between 20,000 and 30,000 City staff will have to work over the conversion weekend; some consultants believe more than 50,000 people may be involved. **George Graham, London**

CORRECTION

Templeton College, Oxford

The analysis of overseas operations of multinational companies covered in the Financial Times yesterday was published by Templeton College, Oxford, and not by Oxford University. The report, Templeton Global Performance Index, is available from Templeton College, Oxford OX1 5NY, UK, for £65.

IT INTERVIEW BRIAN HALLA, NATIONAL SEMICONDUCTOR

The boss banking on free computers

Brian Halla is seen as a visionary by some industry analysts but treated with scepticism on Wall Street, writes **Roger Taylor**

Prices for personal *computers have dropped* far faster than most expected over the past couple of years, but few in the industry would go so far as Brian Halla in predicting that soon they will be given away free.

Mr Halla, chief executive of National Semiconductor, is sure that will happen within a year, and says he is already working with partners on possible free PC projects.

It is the kind of bold prediction that helps him maintain his optimism in a difficult period for his company. National Semiconductor's share price is trading at about half its 1998 high, yet Mr Halla is in remarkably jovial form.

He jumps up from his chair and strides around the office, drawing diagrams on flipcharts, grabbing product prototypes and behaving like an excitable entrepreneur raising money for a start-up rather than head of a multi-billion dollar corporation.

But in some respects, National Semiconductor is back on the starting blocks. More than 20 years ago, National was the largest semiconductor company in the US; today, it is one-10th the size of Intel and still struggles to find its place in the market.

The key to its future is the "system on a chip". By next year, National Semiconductor says, it will be able to put the entire workings of a PC on a single chip. This has the potential to reduce significantly the cost of PCs and to put computing in all sorts of unexpected formats.

The company has already developed a computer motherboard on a flexible strip that allows it to be used in a PC worn on a belt (see story on right).

The free PC is not as outlandish as might appear. In the financial services industry, for example, it can cost more than $250 (£150) to acquire a customer – and these are customers who are often expensive to service because they like to pop into their local branches to ask questions.

With PCs selling for less than $400, it would be simple for a big US bank, for example, to have a large number of custom-made basic PCs built to order at a unit cost substantially below this. A free PC with every new account could draw customers and encourage them to switch to online banking, lowering service costs. The machines would have an extra button, marked with the bank's name, that automatically connects the customer to an online banking service.

'The PC will become a plug-in device, not a device you plug into'

The free PC is, in Mr Halla's opinion, part of a broader industry shift from what he sees as the Intel strategy of aiming constantly to increase the power of computers to justify new models and the higher prices they initially command.

Instead, the market will shift towards a more flexible view of computing as a facility that can be added to all sorts of appliances, from television sets to telephones. "The PC will become a plug-in device, not a device you plug into," he says.

Rivals such as Intel agree on the need for simpler, cheaper computing devices. However, they do not expect a rapid detrimental effect on the PC market.

Analysts are divided on the issue. One industry research company, Forrester, predicts that 1999 will be the peak year for PC sales, after which prices will collapse and simpler computing devices will start to make big inroads into the market. In contrast, rival Gartner Group predicts PC sales will double between now and 2002. Furthermore, it expects Intel to retain its industry leadership through any shifts in the market.

Mr Halla's strategy wins him a lot of fans among industry analysts, who regard him as a "visionary" – a highly prized attribute in Silicon Valley. But on Wall Street there is a good deal more scepticism about whether Mr Halla has a firm enough grip on the realities of the present. His excitable talk of the coming revolution in computing reeks of the hype to which the technology industry is so prone. In particular, there seems to be a discrepancy between Mr Halla's big picture and his company's performance.

Down time: Brian Halla's 'worst failure' was losing the 3Com contract, but he believes better times are not far off

Of all the leading US semiconductor companies, National has been the worst affected by the prolonged slump in the semiconductor market. Losses of close to $100m in the year to May on sales of $2.5bn forced National last month to announce the closure of part of its semiconductor plant in Scotland and the sale of the rest.

Mr Halla has put together a unique combination of assets combining the less glamorous analogue business, which makes circuits for tasks such as controlling the power on a computer motherboard, with the capacity to make low-cost X86 processors – the heart of any Windows-based computer.

However, the industry has had some unpleasant surprises. Cyrix, the X86 microprocessor builder, lost its order to supply Compaq, the largest PC maker, earlier this year. Then National lost an important contract to supply 3Com with network switching circuits.

Mr Halla describes the loss of the 3Com contract as the "worst failure" in his career and says the company is now focused on improving execution. He believes a change in fortune is not far off. "When this thing turns, it will turn very, very fast," he says.

If he is right, PCs could soon be free. If he is wrong, National Semiconductor will shortly be available for a knock-down price.

MINIATURE COMPUTERS

Waistline PCs serve coffee in a moment

A computer round the waist is part of the uniform for staff in a number of Starbucks coffee shops around the US, *writes Roger Taylor*.

They walk along the line of waiting customers, take their orders, and dictate them into a headset attached to the computer, which is worn on a belt.

The computer uses voice recognition software and a wireless connection to computers at the counter to process the order and beam it instantly to counter staff. If all goes well, your coffee is waiting for you by the time you reach the front of the line.

The device is on trial but early indications are that it works well. It is made by Via, a Minnesota-based company, and makes use of technology from National Semiconductor which has put an entire computer motherboard on a flexible strip about 5in long – small enough to fit comfortably in a belt.

Mr Halla is delighted with the device. "I have dedicated my life to not waiting in line," he says. He adds that the belt PC could save Starbucks plenty of money as long lines are the singlebiggest cause of lost customers.

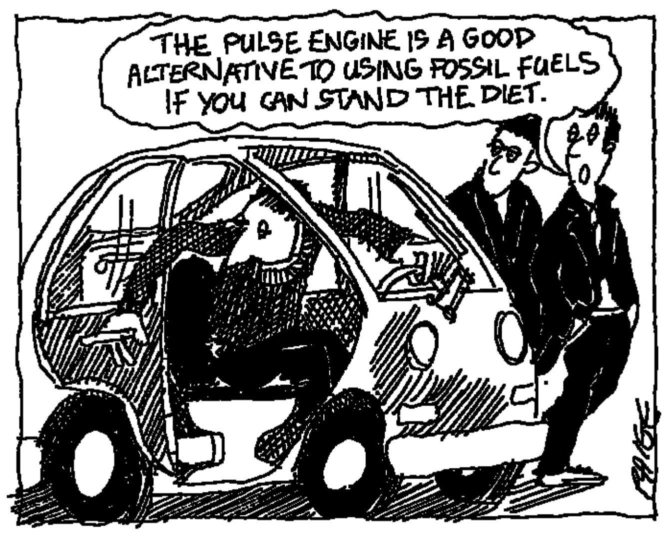
He also believes the device illustrates the need for "information appliances" – the broad term used to describe computers in new formats – to continue to use the Windows X86 architecture.

It relies on voice recognition software from Lernout and Hauspie, the Belgian linguistics software company, which – like most software applications – has been written to work with Windows.

FT GUIDE ENVIRONMENT CONFERENCE

Becalmed while hurricanes rage

The stakes are high but the biggest decision at this year's UN climate-change conference was to delay deciding, says **Vanessa Houlder**



I keep hearing that the current spate of natural disasters may be caused by climate change and that there is an international effort to remedy this. What happened at the United Nations conference on the subject last week?

On the face of it, not a lot. It was meant to start sorting out the loose ends from the Kyoto conference last year. Then, rather against the odds, the industrialised world agreed to legally binding cuts in greenhouse gas emissions, which are blamed for global warming. This year's conference, held in Buenos Aires, was less dramatic. After two weeks of intricate negotiations, the conference decided to postpone most of its difficult decisions, doing little more than outline the items to be discussed in the future.

It sounds like the old joke: everyone talks about the weather, but no one does anything about it.

It's easy to be cynical. The Buenos Aires meeting was a huge talking shop: there were 1,600 ministers and officials and more than 2,500 delegates from the UN, environmental lobby groups, think-tanks and trade associations.

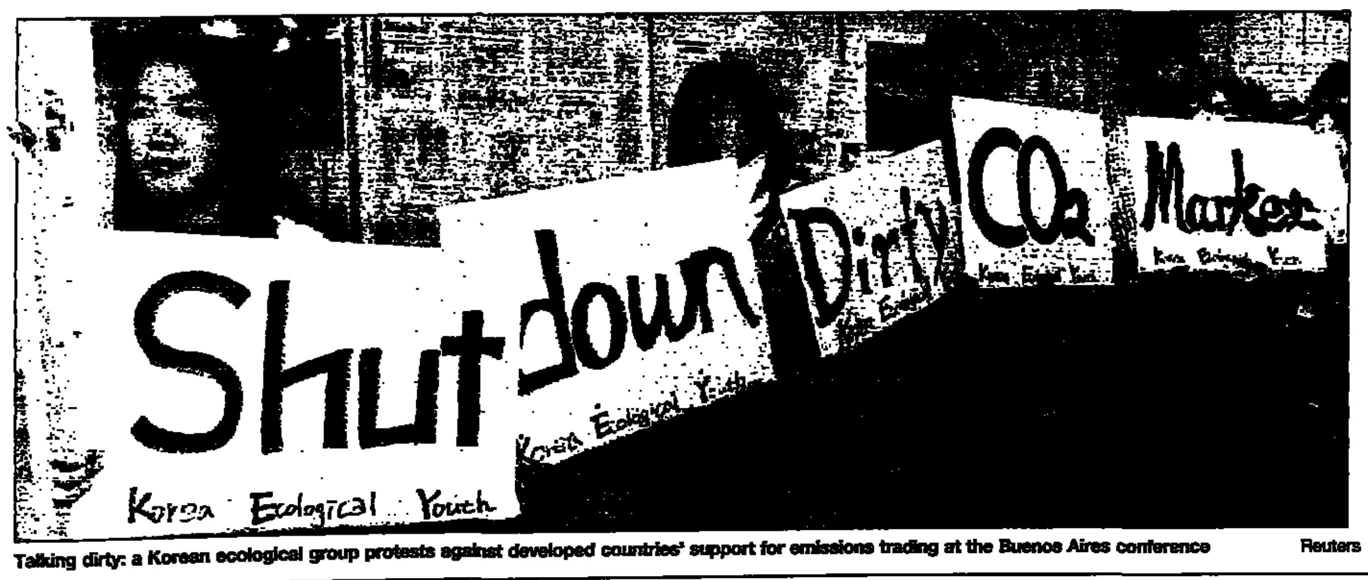
For two weeks they were closeted in a vast windowless conference hall discussing the "process" of agreeing climate change measures with the help of obscure jargon – "invisible brackets", "zeroth draft", "nonpapers", and endless acronyms – COP, MOP, GEF, COW, AIJ, CDM, JI, for instance.

It is not surprising that progress was slow. The attempt to curb global warming is an enormously difficult undertaking. Countries are understandably reluctant to do anything that will hurt their prospects for economic growth. So there is a huge debate about how to share the burden of reducing dependency on fossil fuels. Moreover, it is a bit like setting up a cartel – it will only work if everyone abides by the rules. That means there is a lot of suspicion about some provisions in the Kyoto protocol that, critics say, could allow countries to wriggle out of their obligations.

Such as?

The so-called "flexible mechanisms", market-based instruments designed to reduce the overall cost of curbing global warming. There is widespread support for one of these – the clean development mechanism – which will give an incentive to industrialised countries to transfer clean technology to developing countries.

But emissions trading, which allows countries to sell credits if their emissions are lower than target levels, is far more controversial. The US believes such trading has a crucial role, but the EU and G77 group of developing countries want to impose limits on its use, since they fear it could otherwise reduce the pressure on industrialised countries to make domestic cuts in emissions. This is one of several contentious issues the Buenos Aires summit failed to sort out.



Talking dirty: a Korean ecological group protests against developed countries' support for emissions trading at the Buenos Aires conference Reuters

You make the conference sound like a non-event. Didn't the US sign the protocol? Wasn't that significant?

The US delegates claimed that signing the protocol gave added momentum to the talks. But it was not so significant, in fact, because it does not take the US any closer to ratification.

The US Senate strongly opposes ratification because it thinks the Kyoto protocol is too stringent and will lead to industrialised countries losing jobs to the developing world, which would not be subject to stringent pollution controls.

One of the fiercest arguments at the Buenos Aires summit was over the US insistence that developing countries should make voluntary commitments to abate emissions. Despite a move in this direction by Argentina and Kazakhstan, there is strong opposition to the US request from key countries such as China. So there are some difficult arguments ahead.

How much does US ratification matter?

Well, some people argue that even if the US doesn't ratify the protocol, it will still have moral force. But there is a strong possibility that without the US coming on board, the entire international agreement on emissions reductions could fall apart in a few years' time.

The crunch time is likely to be after the next US presidential elections. Optimists about ratification hope that political sentiment in the US will swing behind the Kyoto protocol. They cite growing public concern about climate change, and a growing willingness of US industry to take climate change seriously, as grounds for hope. Moreover, if there continue to be large numbers of extreme weather events such as hurricanes, droughts and floods, people's minds may become concentrated on the subject.

And if this UN agreement is derailed? Is all lost?

In the short term, the stakes are high – even though it is arguable that the emission cuts agreed in the Kyoto protocol, an average of 5 per cent between 1990 and 2010, will not by themselves do much to save the planet.

Many scientists argue that it is too little, too late to make a difference. But it is important in that it paves the way for further cuts and, moreover, sends a signal to industry and consumers about the need to reduce dependency on fossil fuels.

In the long run, though, it is arguable that technological advances, rather than political will, are going to be the key to combating global warming. If the development of cheap and effective alternatives to fossil fuels gathers lasting momentum, the UN's efforts might come to seem something of a sideshow.

PEOPLE ON THE MOVE

Dobkin to take consultancy role at Goldman after retirement

Eric Dobkin, the Goldman Sachs partner who built the firm's equity capital markets operation, will retire from the investment banking partnership at the end of this month, but will become a consultant for the investment banking partnership.

Dobkin – the firm's longest-serving managing director – played an active role in preparing the partnership for its planned flotation this autumn, before the project had to be shelved due to unfavourable market conditions. He is expected to continue to advise the firm on its plan to launch an initial public offering, which could be revived early next year. Jon Corzine and Hank Paulson, the firm's co-chairmen, have said they remain committed to taking the firm public.

Dobkin's retirement brings to 15 the number of Goldman partners who have decided to retire this year, a number which is in line with previous years, according to a Goldman official.

Dobkin, 55, joined Goldman in 1967 as an institutional equities salesman in Philadelphia, after receiving degrees from Marietta College and Harvard Business School. He became a general partner in 1982.

He remains a member of the commitments committee, which approves the firm's financings for clients and investments. He will also remain chairman of equity capital markets, although the day-to-day running of the business has already passed to Michael Evans and Tom Tuft.

Dobkin said: "The most important thing I have done at Goldman is to develop and implement the conception of equity capital markets in 1985," – a model which has since been adopted by other firms. Goldman remains a dominant force in equity capital markets.

In addition, he said his goal was "to expand my business interests", but he added that he has no detailed plans at this stage.

Last week, **Steven Einhorn**, head of global investment research and co-chair of Goldman's investment policy committee, announced his retirement from the partnership. Both Dobkin and Einhorn will become limited partners at the end of Goldman's fiscal year on November 30.

Tracy Corrigan, New York

Bristol-Myers starts race

BristolMyers Squibb, the US-based pharmaceuticals company, has reorganised its senior management, signalling the start of a race for the company's top jobs when its current chairman, **Charles Heimbold** and executive vice-president, **Kenneth Weg**, retire in 2001 and 2000 respectively. The changes will take effect on December 1. Heimbold and Weg will form an office of the chairman which will groom their successors. "Strong and visionary leadership that delivers results is a critical priority for the company," said Heimbold.

The candidates include: **Donald Hayden**, who was named president, worldwide medicines group and senior vice-president of the company; **Richard Lane**, who has been given responsibility for global marketing and consumer drugs in the US and Japan, in addition to his current position as president, US medicines; **Christine Poon**, president international medicines; and **John McGoldrick**, who becomes president of medical devices in addition to his current roles as senior vice-president and general counsel. **Michael Mee**, senior vice-president and chief financial officer, will take responsibility for global business services.

In addition, the company has set up three new "councils", whose leaders are also seen to be in the running for top jobs. **Peter Dolan** will head a council to consider strategic alternatives for the company and will become a senior vice-president. **Peter Ringrose**, president of the company's pharmaceutical research institute, will head a scientific and development council; and **Stephen Sadove**, president of worldwide beauty care and nutritionals group, will lead an innovation council which will "encourage bold and creative thinking – particularly in product development and marketing", the company said. Sadove will also become a senior vice-president of the company.

Tracy Corrigan, New York

Petri promoted by Bell Atlantic

Dan Petri, a 27-year veteran at Bell Atlantic, is about to become a more familiar face on the international telecommunications circuit. A reshuffle last week left him in charge of the Baby Bell's international wireline investments – a portfolio estimated to be worth $4bn, including an 18.5 per cent stake in Cable & Wireless.

Petri's last job included responsibility for managing the Flag project – the construction of an undersea cable from Japan to Europe, a venture in which Bell Atlantic is the largest investor. Before that, he had run the international operations of Nynex, the New York-based local carrier that merged with Bell Atlantic last year.

In his new position, it seems a fair bet that Petri will end up taking over the seat on C&W's board that is currently held by John **Killian**, the man he is succeeding. Killian himself has moved on to become head of investor relations for Bell Atlantic. Both positions are likely to face further review next year, however, when Bell Atlantic hopes to complete its latest giant merger, with GTE.

Richard Waters, New York

Portela to Banco Santander

A year after being abruptly sacked as head of the international offshoot of Spain's Telefónica group, **Marcial Portela** has found a new slot as an executive vice-president at Banco Santander, the country's largest banking group, with key responsibilities for personnel and cost control.

He is part of a new team being assembled at Santander by former managers of the rival bank Argentaria. He will report to his former boss Francisco Luzón, now on the Santander board, one of the banks's five top executives and increasingly seen as its *éminence grise*.

Luzón was ousted at the time of Spain's 1996 elections as chairman of Argentaria, which was then still partly state-owned. Portela, who had helped him build up Argentaria, left shortly afterwards for Telefónica.

Santander has also hired Argentaria's personnel director **Miguel Sanz** to work under Portela in a management development role.

At the same time, Portela's replacement at Telefónica Internacional, 35-year-old **Juan Perea**, has been moved after just one year in the post. He has been appointed to a new job in the telecoms group as chairman of an interactive communications subsidiary, in charge of internet business and online services.

The new chief executive of Telefónica Internacional, responsible for the group's activities in Latin America, where it is the leading international operator, is **António Viana Batista**, a Portuguese hired from the Banco Português de Investimento banking group, where he was an executive director. He previously worked for the McKinsey consultancy.

David White, Madrid

Gandur joins Ashanti

Welcoming **Jean-Claude Gandur** as a non-executive director of Ashanti Goldfields of Ghana Sam Jonah, chief executive, said: "He will bring a wealth of valuable experience and contacts from the African business world in which he has been an active and committed investor for almost 20 years." Gandur, 49, is certainly better known in Francophone Africa than in Europe. A Swiss citizen, based in Geneva, among other things he is honorary consul to Switzerland for the Republic of Congo-Brazzaville and has been awarded the position of diplomat by Senegal.

Gandur spent eight years at Philipp Brothers, the commodity trader, ending as director for Africa and Latin America before becoming joint founder, in 1984, of Kaines, an oil trading company in which the UK British and Commonwealth group was also involved. In 1987 he led a management buy out of Kaines's Swiss subsidiary and created the Addax and Oryx group whose oil operations – exploration and production as well as distribution and trading – are almost entirely in Africa.

Among the Addax assets was a 43 per cent shareholding in Samax Gold, a Toronto-listed company with a likely looking deposit in Tanzania next to one owned by Ashanti. Ashanti has just completed a US$135m takeover of Samax; Gandur opted to take shares in exchange for his stake and was invited to join Ashanti's board.

Kenneth Gooding, London

GEC recruits Masefield

Sir Charles Masefield, Britain's top defence salesman for the past four years, is to take charge of marketing at General Electric Company and join the main board as vice-chairman. His replacement as head of defence export services at the Ministry of Defence is to be **Tony Edwards**, who has stepped down as a director of TI Group, where he has been chairman of aerospace interests.

Sir Charles, like Lord Simpson, GEC's managing director, was previously at British Aerospace. Before going to the MoD he was commercial director at Airbus Industrie. Lord Simpson described him as "one of Europe's most successful marketeers".

He will arrive at the same time as Sir Roger Hurn, chairman of Smiths Industries, who is moving to GEC to replace Lord Prior as chairman, and just as Lord Simpson actively seeks opportunities for rapid growth of the group both in the US and Europe.

Sir Charles's appointment means that **Sir Geoffrey Pattie**, former defence and trade minister who has been responsible for GEC's marketing activities, will become group communications director.

Edwards began his career with Rolls-Royce and later worked for General Electric of the US, Motorola, Canada's Bombardier and Lucas Aerospace. He joined TI Group in 1992 following its acquisition of Dowty.

His new job carries an MoD salary of £165,000 ($273,900) plus an annual performance-related bonus of up to £15,000. The defence industry tops up his pay so that it remains on a par with his at TI.

Alexander Nicoll

Moving places

- *Toyota Deutschland has appointed* **Hans Halbach** managing director responsible for operations.
- **Henrick Hacklin** has been appointed European director of Raisio Chemicals. He will be based in Mainz in Germany.

International People is edited by Lisa Wood.

The reach of public law

European court

The European Court of Justice last week gave a judgment on the definition of bodies governed by public law in the context of the European directives on public procurement.

The judgment arose in a case involving two Dutch local authorities that had awarded a refuse collection contract to ARA, a company set up by them for that purpose, and BFI Holdings, a private-sector company.

The public procurement directives apply generally to contracts awarded by public authorities and by bodies governed by public law.

In the case of public service contracts, article 6 of the 1992 directive provides that the rules do not apply to contracts awarded to an entity which is itself a contracting authority.

The European Court was asked to decide whether ARA was a body governed by public law.

The statute incorporating ARA stated that its objects included the performance of all economic operations aimed at collecting waste together with activities related to the cleaning of the highways, the elimination of vermin and disinfection.

A body governed by public law is one that is established specifically to meet needs in the general interest, not having an industrial or commercial character.

BFI argued that, since the activity was capable of being performed by a private company, it could not fall within this definition.

The Court said the directive was to be interpreted as meaning that there was a *distinction* between needs in the general interest not having an industrial or commercial character and needs in the general interest having an industrial character.

It then turned to the issue of whether the term "needs in the general interest, not having an industrial or commercial character" excludes needs that might also be met by private undertakings.

The fact that there is competition is not sufficient to exclude the possibility that a public authority may choose to be guided by other than economic considerations.

It followed that the directive might apply to a particular body even if private undertakings met, or might meet, the same needs. Absence of competition was *not* a condition to be taken into account in defining a body governed by public law.

The existence of competition is, however, not entirely irrelevant to the question of whether a need in the general interest is other than industrial or commercial.

Significant competition and the fact that the entity is faced with competition in the marketplace, may be indicative of the absence of a need in the general interest, not having an industrial or commercial character.

The Court then considered the question of whether the condition that a body must have been set up for a specific purpose of meeting needs in the general interest meant that the activity of that body must, to a considerable extent, be concerned with meeting such needs.

It decided that it was immaterial whether, in addition to its duty to meeting needs in the general interest, an entity was free to carry out other activities.

The fact that meeting needs in the general interest constituted a relatively small proportion of the activities of that entity was also irrelevant, provided it continued to attend to the needs it was required to meet.

Thus, the status of a body governed by public law was not dependent on the relative importance of meeting needs in the general interest not having an industrial or commercial character.

C-360/96: Gemeente Arnhem and Gemeente Rheden v BFI Holdings BV, ECJ FC, November 10 1998.

BRICK COURT CHAMBERS, BRUSSELS

Shock-horror plumbs the depths of symbolism

A new exhibition has pushed along the process of taking that 'difficult' modern artist, Salvador Dalí, more seriously, says **William Packer**

Considered until recently as a minor and peripheral curiosity in the larger story, Symbolism has lately come to be recognised as one of the imaginative mainsprings of later 19th and early 20th century modernism, sprung upon the creative tension between Romanticism and Neo-Classicism, and not yet wound down even in these days of Dada-Revisited and Conceptualism.

And what with the summer's late Delacroix exhibition in Paris now in Philadelphia, the Burne-Jones from New York in Birmingham, Beardsley's decorative decadence in London and Gustave Moreau at the Grand Palais in Paris, this autumn has been a season of Symbolism.

While the early and high maturity of the movement – if anything so various and widely diffused in its influence can be properly distinguished as a coherent movement – have been more thoroughly explored, its later throbs and pulses still await speculative revision.

Surrealism is an obvious case, filling a similar role in the 20th century, as did symbolism in the 19th, as imaginative counter to the more formal aspects of modernism. And it is precisely this opportunity which makes the Salvador Dalí exhibition now at Liverpool – its only British showing – so intriguing, not just for Dalí himself and the generality of his work, which by now together are familiar enough, but for the critical cast of the show itself towards particular sources and influences.

To think of Dalí is to think of the high Surrealism of the 1930s and 1940s, and he the embodiment of the liberated, unrestrained, instinctive, post-Freudian imagination.

So indeed he was, and a client of Freud, *whom he consulted in* London in 1938, into the bargain. But for Freudian theorising of the sub-conscious notwithstanding – of the psychology of dreams, the all-pervasive sexual imperative, the free, intuitive association of ideas – and the *genuine creative stimulus and* liberation it afforded, association is still association, free or not,

We find him making constant reference to classical and medieval myth and Christian iconography

and a symbol still a symbol, whether recognised in its apparent or its subconscious meaning, or not at all.

Surrealism, and Dalí with it, may have taken Symbolism into depths of sexual and subconscious imaginings and meanings that might have shocked the Symbolists (goodness, can I really have meant that, all the time?) but in essence it remains Symbolism. And we think of Picasso and Matisse, Moore and Pollock, Damien Hirst – all are Symbolists, who play these games, make connections, draw meanings.

This exhibition starts with the young Dalí of the mid-1920s, and follows him through to the early 1950s, when he was still barely 50 *(he died in 1989, aged 85), but* heavily concentrates on his work of the 1930s. It was then that he produced the mass of work upon which his critical reputation still largely rests and his general popularity is secured.

Dalí is one of those rare creatures, a "difficult" modern artist celebrated far beyond the narrow art world, admired for what is perceived as an immaculate and precise technique, and enjoyed for the frisson of shock-horror his work so often excites. It hardly matters that even in this, his best period, his imagery is often more minute than exact, his drawing mannered rather than well-disciplined, his surfaces soapy instead of rich.

The more I see of his early work, the more my own antipathy softens, as the self-regarding, self-obsessed monster he would become fades into the future, giving way to the genuine intuitive development of the young artist, from which all else followed, his commitment to ideas and themes still balanced by a natural and intriguing response to what his peers were up to, both technically and imaginatively. We find still the febrile realism of the Spanish tradition, the sideways looks to Picasso, Ernst and Miró, the extravagant appropriation of cubism, the unlooked-for, unexpected hints of Moore and Magritte, young men like him, at work elsewhere.

More to the point, we find him making constant reference to classical and medieval myth and Christian iconography – Narcissus, innocently in love with himself; Oedipus and his mother, Jocasta, fatally entrapped; William Tell, the ambiguously overmastering father. He paints Gala, his wife and muse, as the Virgin Mary, as Leda; as Gradiva, the *Roman girl in the relief, delicately flirting her heels as she* trips along; as the Sphinx that so obsessed Moreau 50 years before.

Most pointedly of all, he addresses one of the central icons of 19th century Symbolism, by one of its masters, "The Angelus" *of Jean-François Millet. Devout* in his anti-clericalism as only a true Roman Catholic can be, Dalí takes Millet's two labourers, who pause to pray at the distant bell, as at quite other business, she the praying mantis who devours her mate, he the inevitable sexual victim, the wheelbarrow beside them a metaphor of athletic copulative variation.

The critical rehabilitation of Dalí started about five years ago in London, with the Hayward's fine study of his youthful work. Now, in identifying and clarifying these several strands, and following them through the tangled skein of the 1930s, now garbled, now lightly allusive, now elided the one with another, now frankly explicit, the curators, Dawn Ades and Fiona Bradley, have taken the process a step further, returning him to serious consideration, above freakish, prurient or purely biographical interest.

The wider historical field they have opened up remains for others to investigate.

Salvador Dalí – A Mythology: Tate Gallery, Liverpool, Albert Dock, Liverpool 3, until January 31, then to the Salvador Dalí Museum, St Petersburg, Florida: sponsored by Manchester airport and Tilney Investment Management.

Revealing look at Dalí: 'Madonna of Port Lligat (First Version)' 1949

Humph, Museum, Milwaukee

A sister's descent into despair laced with poignancy

THEATRE

SARAH HEMMING

The Glass Menagerie
Palace Theatre, Watford, UK

Touching fragility: Alison McKenna in 'The Glass Menagerie'

Alastair Muir

Like Bernard Shaw, Tennessee Williams had a fondness for stage direction which may or may not be helpful to the director. The Wingfields' apartment is in a huge building "burning with the slow and implacable fires of human desperation", he says in the opening pages of *The Glass Menagerie*.

Catching this atmosphere is one of the hardest – and *most essential – things to do* when staging Williams, and David Lan's new production of *The Glass Menagerie* goes a long way. It is not the best production I've seen of this play, but it is pretty good.

There is an extra poignancy to this tragedy, of course, because so much of it is autobiographical. Williams' own mother was the model for the desperate Amanda Wingfield, trying to keep the home together after being deserted by her husband. His frail sister, Rose, forms the template for the daughter, Laura, who, like the animals in her glass menagerie, is too delicate to engage with the harsh real world, and the son, Tom, a would-be poet, resembles the young Tennessee.

The piece is a "memory play", with Tom, as the narrator, looking back to the incident that finally shattered Laura's fragile mind – the arrival of a gentleman caller, on whom her mother pinned crazy hopes for Laura. Lan's production has the slightly fevered, unreal quality of memory, while Gideon Davey's dimly lit set has only the essential props, and the wooden walls are reminiscent of the coffin in which Tom feels himself to be nailed (Bohdan Poraj, ably conveying his struggle between love for his family and loathing for his situation).

The production is a bit slow and stilted to begin with, but comes into its own once Jim, the gentleman caller, arrives. The scene between Jim and Laura is superbly done. Alison McKenna is immensely touching as Laura, shivering with fear at the mention of Jim's name, but thawing visibly as he brings his easy kindness to bear on her.

Shaun Dooley is very good indeed as Jim. As a survivor, an amiable, confident young man who talks enthusiastically about the future, his arrival throws the damaged Wingfield household into *perspective. His very ebul*lience and ordinary niceness makes their fragility painfully clear. Dooley's Jim seems to fill the stage with his affable manner, as he kindly coaxes Laura out of her shell. For a moment you truly believe him, when he maintains that a spot of positive thinking for Laura will cure all her fears.

But, as with all hopes dashed, the revelation that Jim is already spoken for makes a bad situation worse. Few can catch like Williams that sudden downward twist from frenzied desperation to empty despair, and the change is well suggested here. We see how a moment that Jim finds awkward *means the end of the world* for Laura.

And we see Diana Hardcastle's Amanda; who has previously been excruciating, become a tender mother. The final image, as she gently tries to bring round her stunned daughter by holding the tiny glass animals up to the candlelight, is most touching.

Prolific Henze puts celebration in focus

The composer Hans Werner Henze was keenly celebrated in Manchester last week. The Royal Northern College of Music offered five days' *worth of him, from his songs* and piano pieces to chamber music and three full-dress symphonies. The only disappointment was that they had finally to forgo what would have been the British premiere of Henze's grand, stark Ninth Symphony, which made a profound impression in Berlin last year.

Apparently it will not now be heard in the UK before 2000, when Henze turns 74. Meanwhile Edward Gregson, the artistic director of this festival, did the next best thing and programmed the sixth, seventh and eighth symphonies, along with Henze's Piano Concerto no. 1 (composed between the 3rd and 4th Symphonies in 1952, *but never yet played in the* UK) and British premieres of more recent pieces. Henze has always been awesomely prolific, in many genres.

He lent his benign presence to every session in Manchester, including talk-fests. Remarkably, the college's in-house musicians were responsible for almost every concert: virtually the only outsiders were the BBC Philharmonic with Ingo Metzmacher and Peter Donohoe, for the last and biggest concert. All the local person*nel, teachers and students* alike, played to a high standard. Henze seemed pleased.

Of the pieces I heard, two chamber works stood out. The 1979 Sonata for Viola and Piano, a dramatic and dialectical piece, revealed an imposing stature under James Slater's bow and Hee-jung Kim's fingers. It wanted only a touch more incisive authority to display its full tensile strength.

Jeremy Young and the Gurney Quartet (advanced students, younger than Young) attacked Henze's 1991 Piano Quintet with scorching conviction. It treats the four strings less often as individual voices than as a tight, dense ensem*ble, echoing the piano's* evocative material, transforming it, and answering back with heightened intensity. The sheer *sound* of the embattled quintet, variously glassy, shrill, ethereal or penetrating, often raised hairs at the back of the neck.

Directed by Clark Rundell, the ex-college New Ensemble gave a richly prepared account of Henze's *Requiem* (1990-92, and by common consent one of his best and most moving works). It was aptly preceded by Brecht *and Weill's Das Berliner Requiem*: sombre, angry agitprop with an implicit call to the barricades, and three fine solo voices whose honest fervour just missed the feral bite for Brecht's pithy German texts.

Henze's own *Requiem* leaves the hallowed liturgy unsung, but each of its nine wordless movements (from an "Introit" to a "Sanctus") condenses a heartfelt personal reaction – to war, to loss, to despair, to Aids, to the fate of the world – into a few arresting musical paragraphs. The dramatic range is extreme, the invention of a high but unclassifiable order. Henze really *is* unclassifiable. He fits nowhere *quite, and yet he has become* a living rebuke to all those composers who join doctrinaire bandwagons.

David Murray

Festival presented in association with the BBC Philharmonic and the Goethe Institut Manchester.

INTERNATIONAL
Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Rake's Progress: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 18, 20

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Cinderella: new staging by Roberto de Oliveira. The title role is danced by Tamako Akiyama, and the conductor is Peter Ernst Lassen; Nov 17

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Riccardo Chailly in works by Mahler and Mendelssohn. With mezzo-soprano Petra Lang and baritone Simon Keenlyside; Nov 19, 20, 21, 22

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 17, 21

EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
Scottish Opera: Tristan und Isolde, by Wagner, in a production by Yannis Kokkos, directed here by Peter Watson and conducted by Richard Armstrong. Cast includes Jeffrey Lawton and Eva-Maria Bundschuh; Nov 17, 21

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garfoth; Nov 19, 20

HUDDERSFIELD

CONCERTS
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
● London Sinfonietta: conducted by Elgar Howarth in works by Simon Holt, Luis de Pablo and Elliott Carter. With piano soloist Rolf Hind and clarinet soloist Michael Collins; St Paul's Hall; Nov 20
● Nash Ensemble: conducted by Martyn Brabbins in works by Turnage, Simon Holt and John Casken; St Paul's Hall; Nov 21
● Nuove Sincronie: UK debut of the Milan-based ensemble, conducted by Renalto Rivolta in the UK premieres of three works by Luis de Pablo; St Paul's Hall; Nov 22
● University of Huddersfield Symphony Orchestra: and Symphonic Wind Orchestra conducted by Barrie Webb and Phillip McCann in works by Tüür, Torke, Cutler and Meij; St Paul's Hall; Nov 18

OPERA
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
Opera North: The Nightingale's to Blame. World premiere of a new opera by Simon Holt, based on a play by Lorca, translated by David Johnston. The conductor is Nicholas Kok and the staging is by Martin Duncan; Lawrence Batley Theatre; Nov 19, 21, Nov 22

LONDON

EXHIBITION
Royal Academy of Arts
Tel: 44-171-300 8000
The Au Bak Ling Collection: 100 Masterpieces of Imperial Chinese Ceramics, 12th to 18th Centuries. Includes works from the Song, Yuan, Ming and Qing dynasties, which together provide a remarkable overview of the finest Chinese porcelains ever made; from Nov 17 to Dec 20

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Paul Daniel in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. John Tomlinson sings the title role; Nov 18, 20

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● Alfred Brendel: recital by the pianist of works by Schubert and Mozart; Nov 17
● *Vienna Boys Choir: 500th* anniversary concert, featuring works by Mozart, Schubert, Mendelssohn and Brahms; Nov 20

MARTIGNY

EXHIBITION
Fondation Pierre Gianadda
www.gianadda.ch/index.html
Paul Gauguin retrospective: organised to mark the gallery's 20th anniversary. More than 100 works have been borrowed from *public and private collections* from around the world; to Nov 22

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Zubin Mehta in works by Liszt, Beethoven and Berlioz. With piano soloist Radu Lupu; Nov 21

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Der Freischütz: by Weber. Conducted by Zubin Mehta in a new production by Thomas Langhoff, with designs by Jürgen Rose. Cast includes Petra-Maria Schnitzer and Peter Seiffert; Nov 19

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● New York Philharmonic: conducted by Christian Thielemann in R. Strauss's Alpine Symphony; Nov 18
● New York Philharmonic: conducted by Christian Thielemann in works by W. Schuman and R. Strauss. With cello soloist Carter Brey; Nov 19, Nov 20, 21

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Aida: by Verdi. Nello Santi conducts and the cast includes Sharon Sweet, Dolora Zajick and Fabio Armiliato; Nov 17
● Le Nozze di Figaro: by Mozart. New staging by Jonathan Miller, with designs by Peter Davison. The cast is headed by Felicity Lott, Cecilia Bartoli and Bryn Terfel, and the conductor is James Levine; Nov 18, 21

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
● Kirov Orchestra: conducted by Valery Gergiev in works by Wagner and Scriabin. With piano soloist Alexander Toradze; Nov 17
● San Francisco Symphony Orchestra: conducted by Herbert Blomstedt in works by Britten, Beethoven and Hindemith. With violin soloist Frank Peter Zimmermann; Nov 18, 19, 20, 21

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
Peter Grimes: by Britten. Conducted by Donald Runnicles in a staging by John Copley, with sets by Carl Toms. The title role is sung by Thomas Moser; Nov 17, 22

TOKYO

EXHIBITION
Metropolitan Museum of Photography
Tel: 81-3-3280 0031
Love's Body: Rethinking Naked and Nude in Photography. Includes works by Alfred Stieglitz, Robert Mapplethorpe and Catherine Opie; to Jan 17

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Fedora: by Giordano. Conducted by Roberto Abbado in a production by Lamberto Puggelli, directed here by David Edwards. The cast is led by Mirella Freni and Placido Domingo; Nov 17, Nov 20

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PETER MARTIN

Chain reaction

It is not just globalisation which is forcing companies into cross-border mergers. Deflation is also playing a big part

Everyone in chemicals is doing it. Pulp and paper is following suit. Oil is starting to move the same way. Steel is teetering on the brink. Cars are *joining in too.*

For basic industries – the ones that powered the world's industrial transformation over a century and a half – there's no escape. No longer the stars of their domestic economies, they are undertaking cross-border rationalisation to survive.

The chemicals industry is the most visible example. Hoechst's merger talks with Rhône-Poulenc bring together two companies that have already taken big steps to escape from their chemicals roots. They follow *hard on the heels of ICI's* transformation, the planned merger of Clariant and Ciba Specialty Chemicals, and the purchase by Shin Etsu of Japan of Rovin, a Shell/Akzo Nobel joint venture, to become the world's biggest PVC producer.

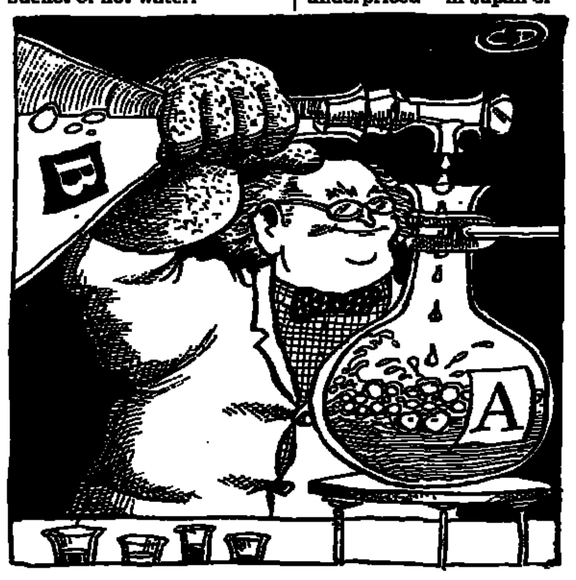
Other traditional manufacturing industries have also seen the writing on the wall. In steel, Usinor of France is taking over Belgium's Cockerill-Sambre, and British Steel has acquired control of Sweden's Avesta. In pulp and paper, Sweden's Stora and *Finland's Enso have come* together. In oil, British Petroleum is taking over Amoco. In cars, Daimler is merging with Chrysler.

One way of looking at this cross-border merger frenzy is to see it as part of globalisation. With the world now a single market for many of basic products, a pattern of production and ownership that reflects traditional national boundaries no longer makes sense. So industries are settling down into new constellations of power and scale, crossing national boundaries as easily as they once crossed local ones.

That is only part of the story. True, globalisation would have shaken up traditional patterns of ownership – eventually. And without a recent willingness on the part of governments, managers and shareholders to accept overseas ownership without complaint, many of these deals would have proved difficult.

But the urgency with which these companies are coming together derives from something else. It's one of those invisible economic trends we all know is happening but find it hard to pin down: deflation.

Stable prices, which now *reign across the developed* world, are a statistical illusion. Those unmoving consumer price indices do not reflect what is really happening to businesses. In the words of a hoary old statistical joke, they are the average temperature of a man with his head in the freezer and his feet in a bucket of hot water.



Some sectors, especially in the service sector and other high-growth areas, are comfortably warm, with prices for their products rising. For others, chilled to the marrow, prices are relentlessly falling. The industries that find themselves at the freezer end of the body corporate are the ones rushing towards cross-border mergers.

For industries supplying the basic ingredients of manufacturing – chemicals, steel, oil, paper – the freeze has got much worse in the past year. The Asian tigers provided almost all the growth in demand for these products, as they turned themselves into the workshops of the world. With Asian manufacturing *in deep recession, prices of* industrial building blocks have been tumbling.

In other industries, such as cars, there is not the same demand-side pressure on prices. Their Achilles heel is overcapacity, a surplus of plants built on the back of cheap capital. In some cases, this capital was artificially underpriced – in Japan or others, it is the result of low long-term interest rates or booming stock markets.

Industries that do not face the same pricing pressures would do well to learn a lesson from those that do. The impact of deflation seems set to get worse, if *anything, rather than better.* Real interest rates remain high all round the world, even after the recent easing in the US and elsewhere.

Consumers have been conditioned to expect bargains – and are sufficiently apprehensive about the macro-economic outlook to seek them out. Asian exports will recover fast enough to keep downward pressure on finished-goods prices, but not fast enough to ease the squeeze on suppliers of basic ingredients. And in Europe, the increased transparency that follows the euro will help push prices down.

These are all reasons to think that even those businesses currently basking at the warmer end should think hard about how to cope with falling prices. Product differentiation, extra service, internal cost-savings, the creation of parallel "bargain" brands – *these are all familiar* weapons in this struggle. Only when these remedies are exhausted should companies contemplate cross-border acquisitions.

Such deals are inherently risky. They are riskier still when produced by fear rather than greed. Defensive mergers of equals, in which the distribution of power is unclear and the unspoken shared motive is a desire to shelter from the cold, are the riskiest of all.

Cross-border mergers are likely to succeed only when their motivation is *aggressive and the victors in* the internal struggle for power are identified at the outset. Some of the recent deals in basic industries (such as BP/Amoco) fit this pattern. Many do not.

The 1970s taught us how inflation damaged business decisions and the allocation of resources. We will soon be learning, the hard way, that deflation has an industrial price too: botched mergers and unworkable combinations.

peter.martin@ft.com

LETTERS TO THE EDITOR

Action, not denial, is required to bridge the UK's productivity gap

From Mr Peter Mandelson MP.

Sir, John Redwood (Letters 16 November) argues that it is no wonder that Britain comes out badly in McKinsey's productivity comparisons because exchange rates were used that are lower than recent market rates. Does he not realise that, because market rates vary so much, the internationally standard way of making comparisons is to use purchasing power parity exchange rates based on local prices for similar goods? Surely he is not arguing that the appreciation of roughly a fifth in sterling against the D-Mark in the year to May 1 1997 improved our productivity relative to Germany by this amount?

He also takes exception to my statement in last week's debate that "productivity relative to our main competitors did not improve during the Tory years".

National accounts data show that between 1979 and 1996 we fell behind Japan, west Germany and Italy in terms of gross domestic product per worker, that we made practically no progress against France, and that everyone did rather better against the US – not surprising since it is the world leader from whom others should be well placed to learn. Overall, my statement stands.

McKinsey told the first of the DTI/HMT productivity seminars that economic performance gaps remain significant. Its report shows that our GDP per head grew somewhat faster than in the US, Germany and France between 1985 and 1996, but makes clear also that the underlying reason is not that our productivity improved faster. It is that the proportion of our population in work has tended to increase, if more slowly than in the US, and that the proportion in work has tended to fall back in Germany and in France.

In short, we have tended to draw more people into the labour market, an excellent thing which welfare-to-work is designed to enhance. Would that our relative productivity had also improved.

Instead of pretending that no productivity gap exists, as Mr Redwood repeatedly does in the House and in the press, we see this as a challenge that requires action, one that we are determined to meet.

Of areas referred to in his letter, we have already announced that we will re-examine planning regulations and building controls; we are pressing with like-minded European Union partners to phase out milk quotas; our telecommunications market is already one of the most competitive; and the Commission is looking generally at price differences, including cars. Far more fundamental will be the programme of action to improve our competitive performance that the government will soon announce in my white paper.

Peter Mandelson,
secretary of state for trade and industry,
1 Victoria Street,
London SW1H 0ET, UK

Third world should draw business into dialogue

From Mr Robert Davies.

Sir, Martin Wolf's commentary ("Aid, hope and charity", November 11) on the World Bank's conclusions that aid works where economic policies are sound and that aid in these circumstances is a good *investment, is welcome.*

Economic growth that includes the poor, builds human resources and opens access to trade and investment is a better recipe for sustainable growth and poverty alleviation than dependency. But the economic growth model in a world where private sector capital flows, trade and investment are the main motors for development, will work best where the private sector is encouraged to optimise the development benefit from their business operations to communities in poorer countries where they operate.

An enabling environment, *which engages the private* sector in both dialogue and action to promote transparency and good governance, share management skills, raise business standards, build human resources and strengthen the social infrastructure through partnerships between private and public sectors, will deliver far more development than open markets alone. In our experience of working with business and partners in developing and transition countries this is beginning to happen. But what is required is that the exceptional behaviour of the *leaders now becomes the* mainstream practice of the many to the certain acclaim of employees, customers and communities.

Robert Davies,
chief executive,
The Prince of Wales Business Leaders Forum,
15-16 Cornwall Terrace,
Regent's Park,
London NW1 4QP, UK

Blair should move into the open on EU

From Sir Roy Denman.

Sir, Philip Stephens offers a characteristically elegant defence ("The goal is set" November 13) of Tony Blair's policy towards *the* euro. The prime minister sees "Britain's future embedded in the European Union". Some day it will join the single currency. What happens meanwhile, *as far* as the British public is concerned, is clouded in mystery.

This Micawber-like approach is depressing enough. Even more depressing is that Mr Blair is still not facing up to the full political implications of the European adventure.

From the beginning the aim *has not changed.* Following Robert Schuman in 1950, and Walter Hallstein 40 years ago, Gerhard Schröder pledged on November 10 "to drive forward the further development of a political union".

Joining this would for us be a major step. Yet, as Germany has shown, federation can be a highly successful means of ensuring prosperity at home and influence abroad, while fully respecting local traditions.

If Britain chose to put its weight behind *political* union it could play a important role in Europe and the world.

But the British people need to make this choice *after* full and honest debate, not to be told half the story several years late. In the meantime, as Mr Stephens points out, the euro-zone is forging ahead. The clock is ticking. It is time for Mr Blair to come out of his corner.

Roy Denman,
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FT INTERVIEW LEE KUAN YEW

Don't expect too much

Singapore's elder statesman tells **Peter Montagnon** and **Sheila McNulty** that Asian values will not be changed either by the crisis or the policy response to it

The great and the *good still flock to* see Lee Kuan Yew, Singapore's former prime minister and now "senior minister", perhaps because he does not mince his words.

On the eve of this week's Asia-Pacific summit in Kuala Lumpur, Mr Lee has little consolation for Asia's embattled leaders, or for westerners wondering when and in what form Asia will emerge from its year-long crisis.

The summit will not produce any simple solutions to the Asian malaise, he says. If there were such solutions, they would have appeared already. Instead, leaders must give heart to populations still facing a long hard slog. "The key to recovery is *to clean out their systems,* win back confidence and get capital to flow back," he says. "Then interest rates and exchange rates and everything else will fall into place."

Sitting in his wood-panelled office in the Istana, the palace from where he governed as prime minister from 1959 to 1990, Mr Lee slaps his knee with the con*viction of a man who* knows he is right. His seemingly frail exterior masks the alertness of a man still bounding with energy.

Mr Lee warns the west that it would be rash to suppose that the measures which are called for to deal with the crisis – cleaning up the banking system, better regulation and an end to cronyism – will engender *quick cultural change.*

"Can you expect them to wake up the day after the crisis and say 'we've done wrong, let's be different'? That is not realistic."

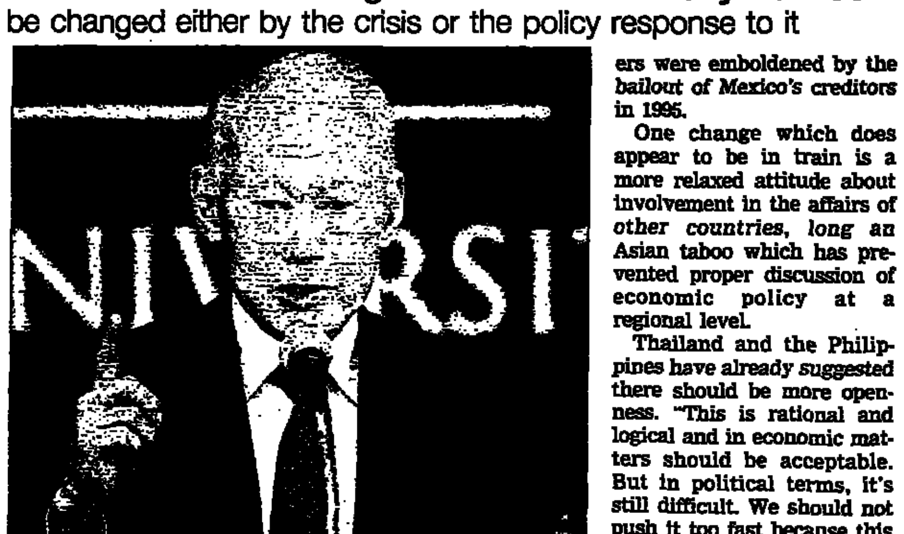
Asian bankers will still help a nephew or a cousin get a loan, he says. "I don't see that stopping altogether. It's been their way of life, and of government."

What about the general issue of government corruption? In particular, what about the vexed question of underpaid government officials in several parts of Asia *collecting monies that* are not properly accounted for?

"[Countries] may change *over a generation, but not* immediately," Mr Lee says. "Moreover the 'toll collection system' set up by underpaid government officials has been institutionalised and cannot easily be dismantled. But they will have a more open system, which foreign investors and banks may find acceptable." In general, he says, "they know their excesses will have to stop".

Democratic reforms are not a panacea. Even in Asian countries which have democracy, voting often involves money, and huge sums change hands. "Look at the Philippines," Mr Lee explains. "It has democracy and a free press which are supposed to get rid of corruption, cronyism and nepotism. But by backing the right candidates with their resources in the last elections, Mrs [Imelda] Marcos and her children are back in the political and business limelight. [Former President Ferdinand] Marcos pillaged the country but the family is back, and the loot has not been recovered."

Indonesia is also on Mr Lee's mind. The country is emerging from its economic crisis as a possible security risk, and it is important that the army is not pushed quickly out of politics, he says. It needs a government that will restore order and confidence. "For that, they need elections to produce a government that will have *legitimacy* with their people. Only such a government will have the clout to carry through the tough reforms they need."



Lee: 'Countries with some capital controls have come off better'

Even so, Mr Lee argues for caution. "If they *do it in* stages and do not try to have a total change at once, and the army stays in support of the process, there is a fair chance that they can pull through. But if they go for immediate and total change, and out with the army, then there could be trouble. If the army is not in active support of the government, not an active participant in decisions affecting law *and* order, there could be chaos [in Indonesia]," he says. "If you completely overturn the present set-up, I don't know what will emerge."

Mr Lee says the crisis is bound to add to pressure on governments to maintain some form of capital controls. Singapore is not in favour of them but others face different circumstances. "Many developing countries will conclude that those with some capital controls, like Taiwan and China, have come off better."

Free capital mobility for developing countries with weak institutions is not necessarily a plus, Mr Lee argues. The borrowing spree only started in Thailand and Indonesia after they lifted capital controls in the early 1990s, and it was made worse because international lenders were emboldened by the *bailout of Mexico's* creditors in 1995.

One change which does appear to be in train is a more relaxed attitude about involvement in the affairs of *other countries, long* an Asian taboo which has prevented proper discussion of economic policy at a regional level.

Thailand and the Philippines have already *suggested* there should be more openness. "This is rational and logical and in economic matters should be acceptable. But in political terms, it's still difficult. We should not push it too fast because this is a wrenching cultural change for many leaders," Mr Lee says.

Asean, the Association of Southeast Asian nations, was "shell-shocked" by the crisis but is far from being a spent force, he says. Its members still need each other to have a bigger voice in the region. "But all are *dazed at what has* happened and have not taken in the extent of the damage. We have not completely hoisted in the economic, social and political implications of what has struck us."

He believes Japan has been criticised unfairly for lack of leadership in the Asian crisis. After all, the country has committed large amounts of money which *China*, the region's largest country, was not in a position to offer. China has made a useful contribution by resisting the temptation to devalue, but it was unable to *provide solutions* for the entire region.

Mr Lee says Japan has not had the clout to impose policies on other governments. This is still the prerogative of the *International* Monetary Fund, with US backing. For Mr Lee, this is a satisfactory state of affairs, as it is further evidence that no one country can dominate the region.

"The Americans can play the Japanese card with the Chinese, and the Chinese card against the Japanese. But Japan and China have no card to play against the Americans, not unless they can act together, which is unlikely."

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Tuesday November 17 1998

Japan's failing policies

Japan's latest economic stimulus package, announced yesterday, was characteristically vague and confusing. Combined with the Bank of Japan's moves to pump liquidity into the economy, it may just be enough to keep the economy out of deep recession. But it is likely to make Japan's structural problems even worse.

Part of the reason for the severity of Japan's recession is overcapacity in both the banking sector and in industry. The keiretsu system and extensive cross-shareholdings provided a shield from market pressures. And the close relationship between companies and banks meant that companies could borrow for projects with little assessment of their viability, even as their profitability declined.

Despite the depth of the current recession, though, very little of this capacity has actually been taken out of the system. The soaring bankruptcy figures are only the tip of the iceberg.

Banking sector restructuring has shied away from any proper assessment of which banks are worth saving and which should be closed. The Bank of Japan's decision to accept corporate bonds as collateral for cheap loans will also help banks struggling to keep afloat.

With the pain now spreading from the banks to the corporate sector, companies are looking to the Japanese government for help; they are getting a response. The banks are being actively encouraged to lend more. Yesterday's stimulus package included an allocation of Y5,900bn (£28.9bn) to "alleviate the credit crunch" – which translates as cheap loans for business. The state-sponsored Japan Development Bank is already mulling a Y100bn loan to carmaker Nissan.

The Y8,100bn of infrastructure spending in yesterday's package is also, less directly, aimed at struggling companies. The government's enthusiasm for public investment, despite the fact that Japan's infrastructure is already highly developed, is partly explained by the fact that it provides business for the construction sector, which still accounts for 10 per cent of employment.

The lack of market reaction to a package worth 4 per cent of gross domestic product also reveals an utter loss of credibility in Japan's government. This package, like so many before it, was announced with the bare minimum of detail. It is almost impossible to tell how much of the money is new, and how much recycled from previous packages; or exactly how each chunk of money will be spent.

After months of damaging procrastination, the Japanese government's only response to the deepening crisis appears to be to throw money at the economy, bailing out banks and companies indiscriminately. Only when it accepts that real restructuring is necessary will the economy be back on the road to normality.

Benz bows out

No industry is more global in outlook and operations than the motor industry. The globalisation of best production practice has, moreover, provided immense benefits to the consumer. Yet, paradoxically, ownership of the larger companies has remained essentially national. The sleek and increasingly uniform vehicles that emerge from factories around the world are also the product of remarkably different labour market practices, financial disciplines and governance arrangements.

That is a measure of the challenge confronted by DaimlerChrysler, the merged German-US entity whose shares will be traded for the first time tomorrow. An amalgamation on this scale, across national boundaries, is unprecedented. Yet there can be no question that the prize is worth striving for.

The former Daimler-Benz brings to the marriage quality engineering unmatched in the US. For its part, Chrysler uses capital with an efficiency that is notably lacking at Daimler-Benz despite its recent enthusiasm for shareholder value. If the two companies can help raise the other's game in these complementary areas, this could be a marriage made in heaven.

But what if, to pervert a celebrated aphorism of George Bernard Shaw, the outcome of the marriage delivers the engineering quality of the Americans and the capital productivity of the Germans? There lies the risk. But at least, in an industrial marriage, it can partly be managed.

The positive aspects of the combination include sound industrial logic: in a market suffering from global overcapacity, such consolidation makes sense. So, too, does the management dynamic. While the get-together is billed as a merger, and the largest ownership stake is in US hands, there is no question that the Germans, led by Jürgen Schrempp, are in charge.

The big problem, as with all cross-border mergers, will be the harmonisation of the respective cultures. Since the holding company will have a two-tier board and operate on the basis of *Mitbestimmung*, or co-determination, Anglo-American governance practice will be interestingly tempered with a German social conscience. The scope for the mix to become poisonous lies most obviously in the area of pay, where the US managers enjoy dramatically higher rewards than their German counterparts.

That said, much of what is best in the US management culture has Germanic roots. And modern communications technology greatly reduces the difficulties in controlling a cross-border behemoth. Integration will no doubt be painful – but not necessarily insuperable.

Rethinking Iraq

After the brinksmanship of the weekend, the weapons inspectors of Unscom are set to have one last try. They arrive back in Iraq today, preceded by a US-UK warning to Saddam Hussein that if he further obstructs their task he will be bombed.

It is hard to know whether Unscom can uncover any more of Iraq's armoury of chemical and biological weapons. But it is practically certain that, if it looks like doing so, Baghdad will block it. The crisis is by no means over.

In particular, Washington and London appear determined to set Mr Saddam exacting tests of his willingness to co-operate, while there is still momentum behind their military build-up in the Gulf. As Washington confirmed at the weekend, this could mean an early end to Unscom's role.

While Unscom should of course be used to the full while it can be, its departure would force a policy re-think which is in any case long overdue. Since the end of the Gulf war, containment of Iraq has been based on blanket sanctions, intrusive weapons inspections and periodic military strikes to keep Baghdad in line. That policy appears to have run its course. It has been successful in preventing Mr Saddam threatening his neighbours. But what it never envisaged was that he would last this long, with such destructive effects.

After eight years, sanctions have actually tightened his grip on power while his people starve; he manipulates the inspection regime to challenge the UN; and his ability to withstand occasional missile attacks plays well to the Arab gallery.

Washington, which ordered and then rescinded bombing raids at the weekend, appears resigned to moving from internal monitoring of Iraq to external deterrence, whereby aggression and non-compliance with UN resolutions by Mr Saddam would invite prompt retaliation.

In time, however, it should consider whether to refocus sanctions, and in particular whether to lift the embargo on Iraq's oil exports. Mr Saddam evades the embargo by smuggling enough to finance his regime; its effect falls primarily on his people. Where the screw needs to be tightened is on Iraqi imports. The western countries should intensify their co-operation with Iraq's neighbours, Turkey, Jordan and Iran, to stop smuggling. In addition, there needs to be a significant increase in monitoring of Iraqi imports to prevent arms and dual-use equipment going in.

The current sanctions regime is neither sustainable nor likely to end Mr Saddam's rule. A policy of firm deterrence coupled with newly targeted sanctions stands a better chance of minimising the threat he can pose to the region.

Opening the floodgates

Richard Tomkins argues that the US tobacco settlement seems to set a worrying precedent: that the public sector can claim against all sorts of industries for the costs imposed on society by people's use of their products

The sum is breathtaking: almost the size of the annual US defence budget, bigger than Turkey's gross domestic product – bigger even than Japan's economic stimulus package.

If states across the US vote in favour of the deal, the $206bn to be paid out by the tobacco industry over the next 25 years will be the biggest civil liability settlement in corporate history.

Tobacco manufacturers are hoping the deal will put behind them the worst of the litigation that has threatened them for the past few years. The cost will be passed on to smokers in the form of higher cigarette prices, and the companies will be able to go back to business as usual.

But US industry is worried that, far from marking the end of a litigation wave, the deal could open the floodgates to copy-cat lawsuits against other businesses as trial lawyers look for their next big target.

Even as the tobacco deal was being finalised last week, Richard Daley, the mayor of Chicago, announced that the city was filing a $433m suit against gun manufacturers and distributors, claiming compensation for the cost of dealing with gun-related crime. Two weeks earlier, the city of New Orleans had also filed suit against the gun industry, seeking reimbursement of millions of dollars spent on police, medical and other city services in connection with crime, unintentional shootings and suicides.

The New Orleans suit is being master-minded by Wendell Gauthier and John Coale, two trial lawyers who led the charge against the tobacco industry. Several other cities and states, assisted by the trial lawyers, are believed to be preparing similar suits.

"The question is: which industry's next?" asks Larry Kraus, president of the US Chamber Institute for Legal Reform, an affiliate of the US Chamber of Commerce. "Is it going to be alcohol? You can say the same thing about the alcohol industry that you can say about tobacco. It's a substance that if you use it improperly, can damage you or injure you, and causes auto accidents. Interestingly, unlike tobacco, alcohol can result in injury to innocent bystanders from drunk drivers.

"After alcohol, is it going to be the food industry? People eat high fat content foods and get heart attacks and so on that the states end up paying for. You can go on and on."

For example, you might sue the automobile industry to compensate for the medical costs of car accidents. Indeed, anyone associated with activities that have dangerous or unpleasant side-effects might be vulnerable.

"Anyone who doesn't think this is going to happen is badly mistaken," concludes Mr Kraus "because it has already started with the gun industry."

So what new legal theories have prompted this litigation wave? And is it as dangerous as some fear?

In the case of tobacco, it started with entrepreneurial trial lawyers who had become frustrated at their lack of success in persuading juries to award damages to people who had developed smoking-related illnesses.

It was not that juries liked the tobacco industry, or even thought it had behaved very well. But they clung to the commonsense view that the dangers of smoking were well known, and people who decided to take up the habit were responsible for the consequences of their actions.

Lawyers, however, were convinced that there must be a way of prising money from an industry whose products caused sickness and death, so they looked for a new approach. They found it by forming an alliance with the states, which bore the financial burden of treating smokers who had no medical insurance.

The approach was clever because it separated the issue of smoking from personal responsibility. The lawyers argued that, regardless of who was to blame for smokers' illnesses, it was certainly not the states: so the states should be compensated for the money they spent treating impecunious smokers under the Medicaid health scheme.

Once this approach gained momentum, it became almost unstoppable. With the help of the trial lawyers – typically working for a contingency fee of 30-50 per cent of any winnings – nearly every state in the US sued. Some states even passed special laws that stripped away some of the tobacco industry's defences, stacking the odds in the plaintiff's favour.

Soon, the tobacco companies were staggering under the weight of billions of dollars' worth of litigation. Quite possibly, only a handful of the lawsuits would have succeeded, and those may have been overturned on appeal. But it hardly mattered: the risks were high enough for the tobacco industry to consider it safer to settle than to fight – especially since they could pass on the cost in higher cigarette prices.

The element of pressure is now a familiar aspect of the US legal system. On Monday of last week, Dow Corning, the US silicon-products manufacturer, agreed to pay $3.2bn to settle breast implant claims brought by lawyers representing about 176,000 women, even though repeated scientific studies have indicated silicone breast implants are safe.

As with the tobacco industry, no verdicts had been reached. But the rights and wrongs of the case were almost irrelevant: with 19,000 cases pending against the company, each of which would have cost about $1m to win, it was cheaper for the company to settle.

'Which industry's next? Is it going to be alcohol? After alcohol, is it going to be the food industry? People eat high fat content foods and get heart attacks that the states end up paying for. You can go on and on'

The gun cases now being brought closely resemble the tobacco litigation because they eliminate the issue of personal responsibility for the firing of the gun. They simply seek compensation from the manufacturers for the costs imposed on society by their products.

In other countries, if issues like these are tackled at all, they are usually addressed by governments. Most European countries, for example, impose high enough cigarette taxes to outweigh the social costs of smoking, and severely restrict private ownership of handguns and assault weapons.

But in the US, federal and state politicians are hindered by powerful industry lobby groups. The tobacco industry, one of the biggest contributors to Republican party funds, has been notoriously successful in staving off anti-tobacco legislation, and the gun lobby, represented by the National Rifle Association, has been similarly influential in limiting gun controls.

In the absence of government intervention, the courts have been playing a more active role. In the last 30 years they have become more sympathetic to plaintiffs at the expense of big business, expanding the standards of liability and increasing the grounds on which individuals can bring legal actions.

To this extent, says George Priest, professor of law and economics at Yale Law School, the US legal system has become a means of securing social objectives that other countries achieve through government policy and regulation – for example, using awards against the tobacco industry to pay the medical costs of smokers who cannot afford private healthcare.

The problem with this, says Prof Priest, is that a large proportion of the proceeds are absorbed by legal costs and the trial lawyers' contingency fees. "So even if you view it as as a substitute for national insurance, it's a very bad insurance scheme."

It is also very haphazard. In the case of the tobacco settlement, no heed seems to have been paid to the fact that individual states already impose varying levels of excise taxes on cigarette sales; nor to the fact that the federal government recompenses states for half their Medicaid costs, yet is due to receive nothing from the settlement.

Even so, the precedent has now been set. The states and trial lawyers appear to have established the principle that the public sector can claim against any industry for the costs imposed on society by the use of its products. And if enough states or cities sue together, there is a good chance the industry will be forced to settle without any need for the states or city to prove their case in court.

Not everyone agrees that things look as bad as this for US industry. Charles Silver, professor of law at Texas University, says he will be "absolutely astounded" if the tobacco settlement is replicated elsewhere.

The tobacco case, he says, rested in part on the notion that tobacco companies had conspired to conceal the dangerousness of their products. "Where is the conspiracy among gun manufacturers to establish that their products don't kill?" he asks.

Still, the gun lawsuits are there, and many believe it is only a matter of time before the alcoholic drinks industry is targeted. Other candidates could include the car and motorcycle industries, chewing gum manufacturers, and almost anyone involved in the year 2000 problem.

"There no reason why suits on this theory should not be brought against almost any industry," says Prof Priest. "Actually, the largest source of hospital injury in the US is people that fall down stairs. Should we bringing these suits against the lumber industry or the contractors who build the stairs? It's a very unfortunate failure to take the notion of personal responsibility seriously."

OBSERVER

Hypo activity in Munich

The merger that gave birth to Germany's second-biggest bank, Bayerische HypoVereinsbank, is poised to claim its first victims. Eberhard Martini, the jovial, cigar-brandishing former chairman of Hypo-Bank, looks to have come second in a spat with former Vereinsbank boss Albrecht Schmidt, who heads the merged bank.

Schmidt caused a stir last month after HypoVereinsbank raised its risk provisions within week's of the merger's completion. He blamed ex-Hypo officials, implicitly including Martini, for botching property deals, mainly in eastern Germany.

A fuming Martini denied he had done anything wrong and hit back at Schmidt by describing him as unfit to run a bank.

A weekend meeting in Munich of HypoVereinsbank's supervisory board – which includes Martini – declared full confidence in Schmidt. The official line is that Martini's resignation from the board was not discussed, but the word in Munich is that he will soon be on his way. At 64, it could be presented as a natural move into retirement.

But other, younger, heads look set to roll. The board promised "a conceptual reorganisation with a corresponding change in management responsibilities". Sounds painful for someone.

Package deal

Taichi Sakaiya, head of Japan's economic planning agency, can't have enjoyed explaining the latest Y24,000bn stimulus package to sceptical journalists yesterday.

It was, after all, the third or seventh package in the past year, depending on how you define a package. Even Sakaiya had to admit that Tokyo was suffering package fatigue, though he insisted that the latest model was the definitive version.

But it it? Sakaiya acknowledged that the government's pledge to double the country's "living space" – by building homes rather than invading anyone – shouldn't be taken literally.

"In Japan we are always saying double this or that. But it is a slogan – it does not really mean we plan to double it," he said cheerfully. "Our plans are still a little undecided." Observer wonders when the next, more definite, package will be along.

Grace noted

Joe Clark has shown time and again he can be a graceful loser. But supporters of the former Canadian prime minister, who has just won back the leadership of the ailing Conservative party after 15 years, may want him to cash in a bit of grace for some political knuckledusters.

The quickest way to revive his once-proud party – it ranks fifth in the House of Commons – would be a merger with the rightwing Reform party. But Clark disdains the prairie populists and their leader Preston Manning, a rival since their days as student politicians in Alberta.

Clark is best remembered for squandering his surprise victory over Liberal premier Pierre Trudeau in 1979. His first budget included prudent but desperately unpopular taxes on petrol. Trudeau won a no-confidence vote and went on to crush Clark in the subsequent election.

Clark responded with dignity, even calling a leadership contest – which he lost – after declaring that a two-thirds vote of support from his party was insufficient.

There is some surprise that Clark, now 59, has abandoned the role of elder statesman to re-enter the political arena. He certainly didn't sound like a man lusting for power when, in his first speech as leader, he attacked Reform rather than the governing Liberals.

The only result, one Reform member said yesterday, "is that we're going to re-elect Liberals forever".

Open channel

George Chryssoulouris, the energetic boss of Greece's public telecommunications operator OTE, is an expert on information systems. Judging from recent boardroom leaks, he might need to introduce a few more at OTE.

Chryssoulouris has scored two big successes in recent weeks. He helped the government raise $1bn through a secondary offering of OTE shares, stomping round Europe and the US to give more than 100 presentations to rake in the loot despite difficult market conditions.

Then he masterminded OTE's $675m acquisition of Rom Telecom, the profitable Romanian state operator. It's Greece's first mega-deal in the Balkans so you'd think he'd be getting plaudits.

Not a bit of it. Board members complain Chryssoulouris doesn't tell them what's going on. This year they chucked out his business plan because it contained too few details. Vassilis Rapanos, a top-notch banker who took over as chairman in September, is already rumoured to be on the verge of resigning.

Both Rapanos and Chryssoulouris are friends of prime minister Costas Simitis. But if he has to choose between them, it may be easier to find a new job for Rapanos. There are still several state banks in need of an overhaul, while Chryssoulouris is preparing OTE's bid for Bulgaria's telecoms operator. Information systems may have to wait.

The Financial Times

100 years ago

An Artistic Swindle

Mr. Schneider, the manager of the Association of Parisian Artists, continues to inundate London with circulars from Paris. He announces that he will make "a limited number of our portraits of some prominent people absolutely free of charge." A large number of people must have been astonished to find themselves considered of such importance. If anyone were credulous enough to send a photograph of himself, he would shortly afterwards be informed that the enlarged portrait was ready and would be forwarded on receipt of the cost of the frame and carriage – an amount which, it is needless to say, will cover ten times the value of Mr. Schneider's productions.

50 years ago

Occupation Of Germany

Frankfurt, Nov. 16. The three Western Military Governors of Germany to-day reached "90 per cent agreement" on the form of an Occupation Statute, General Lucius D. Clay, United States Military Governor, said to-night. The statute would give Western Germany the first legal definition of its status since the occupation, Gen. Clay said.

FINANCIAL TIMES
TUESDAY NOVEMBER 17 1998

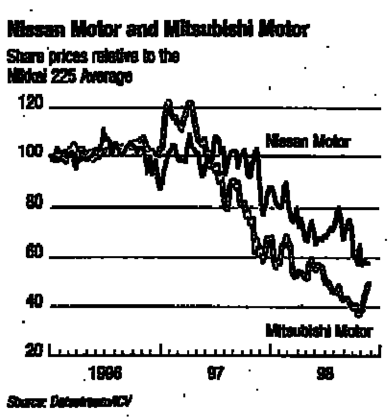
THE LEX COLUMN

Nissan's junk

Nissan and Mitsubishi are in grave shape. News that Moody's, the US ratings agency, is mulling over giving them a sub-investment grade rating will only add to the Japanese carmakers' woes. With astronomic gearing and non-existent cash generation, neither can afford the higher financing costs a downgrade would entail. In Nissan's case, a vicious circle has long been at work as the company attempts to reduce its Y3,900bn debt burden; cuts to capital expenditure have led to lacklustre products, flagging sales and falling market shares.

Is there a way out? Asset sales – such as the Nissan Diesel truck subsidiary – are proving difficult, often because of foreign fears of hidden liabilities to suppliers and customers. Share issues are a hard sell. Commercial lending is contracting fast. And support from *keiretsu* or associated business groupings is doubtful. Inevitably, perhaps, the hat is being passed back to the taxpayer. But subsidies, such as the proposed Y100bn government loan to Nissan, are worthwhile only if tied to strict capacity-reducing measures.

Given that a Japanese company would shy away from the rationalisation that would make a domestic merger pay, letting ailing carmakers go bust seems the best solution. At least then a foreign company could come in with a clearer picture of the balance sheet nasties, as Merrill Lynch did with Yamaichi, and take the credit for saving some jobs.



UK entrepreneurship

Britain has an enterprise deficit. At least, so thinks Tony Blair's government. And certainly compared with the US, Britain is less entrepreneurial. Executives are less willing to leave secure jobs in the private sector for start-ups; the same goes for scientists leaving the groves of academe.

But what should be done? On one view, government cannot change Britons into Americans – and it would not be a good idea even if it could. On another, the culture can and should be changed. First, the government could affect the mood music – for example, by singing even more lustily the virtues of getting rich. Second, it could tilt the tax system to make it easier to become rich. The prospect of big rewards would, in turn, draw more people into entrepreneurship – so changing the culture.

The government has not quite articulated its vision this way. But that is the basic thrust of the various ideas floated in the chancellor's pre-budget statement this month and an accompanying report by Sir Peter Williams. Two proposals, in particular, stand out. First, that high-tech entrepreneurs should pay a reduced tax rate on share options. Second, that loss-making start-ups should gain a tax credit for research and development expenditure.

Such tax wheezes might quicken the nation's entrepreneurial spirits. But can they be justified? One line of argument might be that entrepreneurship is a good thing in itself and so should be subsidised. But is it really more morally valid than, say, teaching or nursing? Hardly.

A more promising line would be to argue that such tinkering would not amount to a subsidy – but rather remove existing handicaps. Remunerating people with share options rather than hard cash is such a case: companies can charge salaries against profit for tax purposes but cannot do the same with options. So cutting the tax on entrepreneurs' options would merely re-level the playing field.

Fair enough – up to a point. Insofar as there is a distortion, it affects everybody, not just entrepreneurs. So any tax-advantageous treatment for options should be available universally – not just to top managers, high-techs or even start-ups. Still, given that entrepreneurial companies rely more on equity to recruit management than mature companies, they would be the main beneficiaries. A similar argument could be made for giving a tax credit to loss-making companies. The current system is asymmetrical: start-ups pay corporation tax if they are profitable but do not get a rebate from the Inland Revenue if they fail. Intellectually, a "negative" corporation tax has much to commend it. Still, if the government wants to go down this road, it should again be universal – not limited to companies with high research and development.

The biggest question, though, is whether the Blair government has shed enough of its socialist baggage to embark on policies that could end up making some people seriously rich.

BMW/Rover

What a pity there is so much political fuss about the sword of Damocles that BMW is holding over Rover's Longbridge plant. BMW is not only right to be seeking job cuts and changes to working practices to justify its £500m-a-year investment programme but it must also consider whether Longbridge, in a congested suburb of Birmingham, is the right place to build the new Mini and a medium-sized Rover models.

Annualised working contracts are the way of the future, as French employers grappling with the 35-hour week know all too well. Out go rigid shifts and overtime payments, in come flexible working hours matched to production peaks and troughs. BMW already has union agreement for such contracts at the engine plant it is building on the other side of Birmingham. With manufacturing unemployment rising and Rover losing money, the time is ripe to push through reforms that could cut £150m from Rover's £1bn employment bill.

But beyond manufacturing efficiency, BMW must decide where to make the new Rover models. The new Mini, due to start production in 2000, could be moved to Cowley, Oxford. This leaves the big question hanging over the Rover 200/400 replacement. Given Longbridge's convoluted layout, BMW believes it would cost £300m-£400m less to build a greenfield factory. That is what it should do, with no need for any state aid. The Longbridge site could then be redeveloped as a modern suburb.

Gore praises Malaysian pro-democracy protests

US vice-president backs reformers in snub to leader Mahathir

By Sheila McNulty and Peter Montagnon in Kuala Lumpur

US vice-president Al Gore praised "the brave people of Malaysia" for taking their pro-democracy campaign to the streets in protest against Mahathir Mohamad, the country's prime minister and Asia's longest serving leader.

Mr Gore's intervention on the eve of the Asia-Pacific summit yesterday sent a strong signal of support for the reform movement of Anwar Ibrahim, Malaysia's sacked and imprisoned deputy prime minister.

But his speech to international business leaders – made in the presence of Dr Mahathir, who looked resolutely away – caused consternation inside the Malaysian delegation.

"It is the most disgusting speech I've heard in my life," said Rafidah Aziz, Malaysian trade minister. "We do expect lectures ... but not to run down the countries and incite things."

Mr Gore said democracy conferred a stamp of legitimacy on economic reform. "And so, among nations suffering economic crisis, we continue to hear calls for democracy, calls for *reformasi*. We hear them today – right here, right now – among the brave people of Malaysia."

Mr Gore was standing in for President Clinton, who was in Washington dealing with the Iraq crisis. But the White House said Mr Clinton had intended to deliver the same message.

However, Mr Gore's remarks added a further jarring note ahead of today's opening of the Asia Pacific Economic Co-operation summit.

After the weekend's sharp exchanges between the US and Japan on trade liberalisation, the summit risks becoming a public relations disaster.

Hundreds of police armed with batons, water cannons and tear gas surrounded the centre where Mr Gore spoke, marching through the streets in a show of force to scare away Anwar supporters. Dr Mahathir had sought to keep Malaysia's political crisis off the Apec agenda by suspending Mr Anwar's trial during the meeting.

But Lloyd Axworthy, Canada's foreign minister, and Sergio Marchi, trade minister, raised it during the ministerial portion, and had private meetings with Wan Azizah Wan Ismail, Mr Anwar's wife. Madeleine Albright, US secretary of state, followed suit, provoking a heated public exchange with Ms Rafidah.

Mr Anwar was arrested in September under the Internal Security Act, which permits detention without trial. He emerged bruised after nine days, to be charged with 10 counts of sodomy and corruption. He has been denied bail.

Mr Anwar insists the charges have been fabricated as part of a conspiracy to keep him from challenging the administration of Dr Mahathir. His treatment has provoked unprecedented protests by thousands calling for an end to the 17-year rule of Dr Mahathir.

$10bn Asia crisis fund, Page 4
Lee Kuan Yew interview, Page 16

Italy faces rift with Turkey over call to extradite Kurdish leader

By James Blitz in Rome and Christopher de Bellaigue in Ankara

Italy and Turkey were last night edging towards a serious diplomatic dispute as Rome appeared increasingly reluctant to extradite Abdullah Ocalan, the leader of Turkey's outlawed Kurdistan Workers' Party (PKK) to Ankara.

In the first foreign policy crisis to hit Massimo D'Alema's government since its formation three weeks ago, Italian ministers were weighing up the political and diplomatic risks in granting Mr Ocalan political asylum in Italy or sending him back to Turkey.

Mr Ocalan, the main architect of armed Kurdish nationalism in Turkey, was arrested by Italian police in Rome on Friday and the Turkish government is filing a legal request for his extradition. The PKK has fought the Turkish army in a 14-year war that has cost 30,000 lives.

Mr D'Alema told journalists that the issue of whether to extradite Mr Ocalan was "a complex and delicate matter", and would be judged by the court of appeal in Rome.

However, Interior ministry officials said final decisions on asylum and extradition would ultimately be taken at a government level and that political considerations would be taken into account.

Ismail Cem, Turkey's foreign minister, yesterday said Italian politicians were trying to put pressure on the judges not to extradite Mr Ocalan. "I think there is a bias in some political circles against Turkey."

Adding to the tension over the issue was the revelation that inmates in a Turkish jail had "taken hostage" an Italian inmate, demanding Mr Ocalan's extradition to Turkey. Mr D'Alema said his government would "not succumb to pressure or blackmail" in dealing with the Ocalan case.

Lamberto Dini, Italy's foreign minister, is thought to be keen to extradite Mr Ocalan to Ankara, fearing that a refusal to do so would trigger a serious diplomatic and trade dispute between two leading Mediterranean countries.

However, several parties in the ruling coalition, including the communists and the greens, support the Kurdish cause and a decision to extradite Mr Ocalan to Turkey could trigger tensions within the new ruling coalition.

Moreover, if Mr Ocalan is sent back to Turkey, police can expect serious trouble in Rome where more than 1,500 Kurds are already protesting against his arrest. A major demonstration is expected today.

Mr D'Alema hinted at his unease over extraditing Mr Ocalan by underlining that the Italian constitution rules out extradition of criminals to countries such as Turkey which still have the death sentence.

Turkey has been moving to overcome this obstacle. Its justice ministry yesterday completed a draft law to abolish the death penalty and said it expected the cabinet to adopt the change when it meets today.

CONTENTS

Microsoft chief executive Bill Gates yesterday gave evidence on video at his company's monopoly trial. Report, Page 6 — Reuters

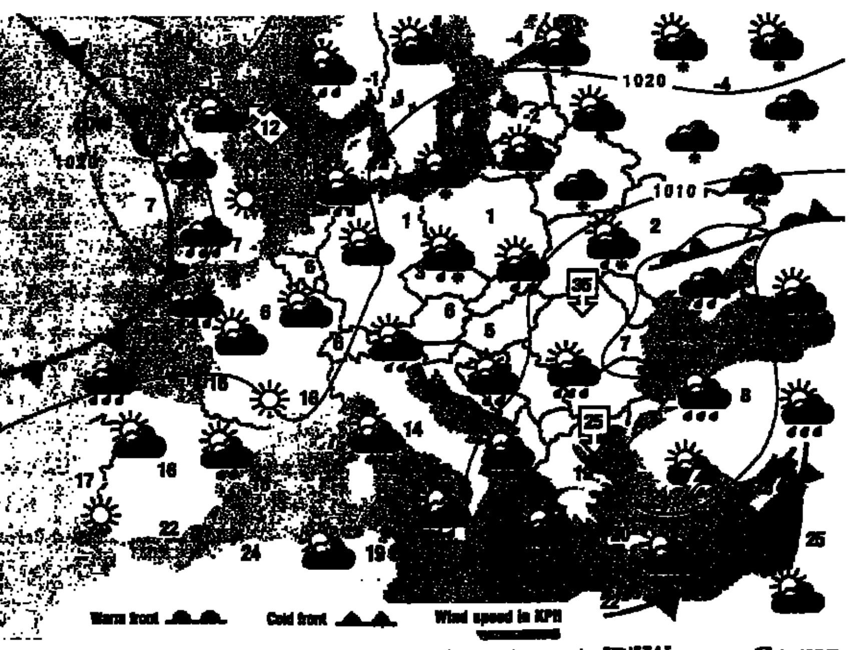
FT WEATHER GUIDE

Europe today

Most parts of Scandinavia will be dry. The Low Countries will have showers. Germany, Austria and Switzerland will also have showers but many parts will be dry. Most of France will be dry but rain will break out later in the north-west. The Mediterranean will also have showers and these will be heavy and prolonged in the east with the risk of thundery downpours. Eastern Europe will be cold with snow showers.

Five-day forecast

The Mediterranean will be very showery, the showers prolonged with thundery downpours in places. Eastern Europe will remain cold with snow at times. North-west Europe will be mainly dry and cold, with the exception of a few well scattered showers. Scandinavia will be cold with snow showers in the west.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	31
Accra	Fair	32
Algiers	Fair	24
Amsterdam	Fair	5
Athens	Shower	19
Atlanta	Fair	22
B. Aires	Rain	18
B.ham	Fair	5
Bangkok	Fair	31
Barcelona	Fair	14
Beijing	Fair	8
Belfast	Sleet	6
Belgrade	Fair	6
Berlin	Sleet	1
Bermuda	Fair	27
Bogota	Cloudy	19
Bombay	Sun	32
Brussels	Fair	6
Budapest	Sleet	5
C.hagen	Fair	2
Cairo	Sun	25
Caracas	Thunder	30
Cardiff	Sleet	6
Casablanca	Fair	22
Chicago	Fair	6
Cologne	Fair	5
Dakar	Fair	31
Dallas	Sun	25
Delhi	Sun	28
Dubai	Sun	33
Dublin	Rain	7
Dubrovnik	Sun	12
Edinburgh	Fair	5
Faro	Sun	21
Frankfurt	Cloudy	4
Geneva	Fair	6
Gibraltar	Fair	20
Glasgow	Shower	6
Hamburg	Fair	3
Helsinki	Cloudy	-4
Hong Kong	Fair	28
Honolulu	Fair	28
Istanbul	Rain	13
Jakarta	Fair	31
Jersey	Rain	9
Johannesburg	Thr	28
Karachi	Sun	30
Kuwait	Sun	31
L. Angeles	Sun	19
Las Palmas	Sun	25
Lima	Fair	22
Lisbon	Fair	17
London	Fair	7
Lux.bourg	Fair	4
Lyon	Fair	5
Madeira	Shower	22
Madrid	Sun	16
Majorca	Fair	18
Malta	Fair	19
Manchester	Rain	5
Manila	Thunder	30
Melbourne	Fair	15
Mexico City	Fair	24
Miami	Shower	29
Milan	Sun	12
Montreal	Snow	1
Moscow	Snow	-4
Munich	Sleet	2
Nairobi	Fair	29
Naples	Fair	14
Nassau	Thunder	30
New York	Shower	13
Nice	Sun	16
Nicosia	Shower	23
Oslo	Sun	-1
Paris	Fair	8
Perth	Shower	27
Prague	Sleet	3
Rangoon	Fair	30
Reykjavik	Shower	4
Rio	Fair	28
Rome	Shower	14
S. Frsco	Fair	13
Seoul	Rain	10
Singapore	Shower	32
Stockholm	Fair	1
Strasbourg	Fair	6
Sydney	Shower	21
Tangier	Fair	22
Tel Aviv	Sun	25
Tokyo	Shower	18
Toronto	Fair	4
Vancouver	Rain	14
Venice	Sun	9
Vienna	Shower	6
Warsaw	Snow	-2
Washington	Fair	18
Wellington	Fair	17
Winnipeg	Cloudy	1
Zurich	Fair	4

FINANCIAL TIMES
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Week 47

GM may ask $10bn for Delphi

Car maker vows to shed parts operation within a year

By Richard Waters in New York

General Motors yesterday put a price of $8bn to $10bn on its parts making operation, Delphi Automotive Systems, and vowed to push ahead with shedding the business before the end of next year despite unease among labour unions.

The move would cut Delphi free of GM just as labour agreements come up for renegotiation.

Delphi has made no secret of its desire to cut costs to make itself more competitive with other, stand-alone parts companies, most of which are non-unionised.

The bad labour relations that have plagued GM in recent years have also hurt Delphi, delaying efforts to make it more profitable.

According to a filing with the Securities and Exchange Commission yesterday, a strike in June and July left Delphi with a loss of $123m in the first nine months of this year, compared with a $736m profit the year before.

Details of the separation came as GM announced its intention to raise $1.5bn through an initial public offering of Delphi, selling 15-19 per cent of the company. It would then shed the rest of its stake before the end of 1999, either by distributing shares to GM stockholders or allowing them to swap their existing shares for Delphi stock.

The United Auto Workers union, which represents more than half of Delphi's North American employees, is thought likely to resist any attempt to separate Delphi workers from the broader GM labour pact when the three-year agreement expires next September.

Delphi said yesterday it was in discussion with unions but would not comment on whether it would seek to negotiate its own labour pacts separately from GM. Any attempt by Delphi to squeeze greater concessions out of the UAW would run counter to other recent cases in which automakers had spun off parts operations, said Doug Fraser, a former chairman of the UAW.

Workers at two such companies, American Axle and Detroit Diesel (both formerly part of GM), were given the same terms for a period of three years, with an option to move back to the former parent, he said.

Asked whether Delphi could break away from that pattern, he added: "They may want to, but they would be hard-pressed to do it." An effort to create better labour relations is one of the considerations behind the spin-off of Delphi, according to yesterday's regulatory filing. Delphi also said that it planned to become far less dependent on sales to General Motors.

The company generated 18.3 per cent of its $31.5bn in sales last year from customers other than GM, up from 15.9 per cent in 1995.

A strike at a Delphi parts plant earlier this year, which helped bring all of GM's North American production to a halt, cut into its business with its parent, lifting sales to other companies to 21.5 per cent.

France Telecom relies on alliance for growth

By Vincent Boland

France Telecom aims to generate a third of its revenues from international activities by 2006 by capitalising on its Global One alliance with Deutsche Telekom and Sprint of the US, Michel Bon, chairman, said yesterday.

The telecommunications company, which generates about 8 per cent of its total revenues outside France, saw revenues from its domestic fixed-line operations fall 5.4 per cent to FFr69.5bn ($12.27bn) in the nine months to the end of September. Revenues were hit by the big reductions in tariff charges France Telecom made to rebalance prices and meet competition.

Mr Bon said the main impact of the reductions was now behind the company and that he expected revenues from fixed-line operations to begin to rise again next year. But France Telecom wanted to see international operations, particularly in Europe, contribute 15 per cent of revenues by 2001, rising to a third within five years. Further growth would come from the expansion of mobile telephone operations and from its on-line operations.

Mr Bon was speaking in London during the presentation to investors of a FFr50bn offering of shares and convertible bonds that would see the state's stake fall from 75 to 62 per cent.

The company is increasing its share capital by 5 per cent to raise FFr20bn. Mr Bon said FFr10bn of the new funds would be used to pay for the development of its international operations, centred on the Global One alliance, and on Metroholdings, its three-way UK venture with Deutsche Telekom and Energis, the UK telecommunications group.

The remaining FFr10bn of new proceeds will be used to pay for a 2 per cent stake in Deutsche Telekom, part of an exchange of shareholdings between Europe's big two telecoms operators that seals a long-standing partnership.

Mr Bon said indications that the price range would be FFr350-370 per share were entirely dependent on the company's share price in the market before a final price was set at the end of November.

INSIDE

Oracle and Microsoft clash at Comdex
Microsoft and Oracle, the two biggest groups in the software industry, have sparred over the sector's direction for years. Things have come to a head with Microsoft's launch, at Comdex, a trade fair, of software that will compete head-on with Oracle's database products. Page 21

Ciba-Clariant link fails to impress
Last week's announcement of the tie-up of Ciba Specialty Chemicals and Clariant has failed to arouse the sort of investor enthusiasm normally expected after a merger between the two biggest companies in an industry. Page 20

Cereals farmers braced for bad news
The European Commission's proposals for cereals industry reform have spread gloom among farmers across the continent. Most countries have doubts about the plans, which include a 20 per cent cut in guaranteed prices paid when markets dip. Commodities, Page 36

Dixons hails free Net service
Dixons, the UK's largest high street electronic retailer, says its recent launch of Britain's first free internet service has been spectacularly successful. This could have profound implications for the UK internet market. Page 28

Bangkok pays price for rally
The 11 per cent decline in the Thai stock market last week, the largest such retreat in Asia, was the price of success. After the SET index's 82 per cent run-up since its 11-year low on September 4, some profit-taking was bound to set in. Emerging Market Focus, Page 52

Citigroup creates one operating body
The two new heads of Citigroup's corporate and investment banking arms have created one operating committee to oversee the Citibank corporate bank and Salomon Smith Barney, the investment bank. The move is seen as the first step in the integration of the corporate and investment banking businesses. Page 21

End of row lifts German bank shares
The share price of Bayerische HypoVereinsbank, Germany's second largest bank, rose by more than 4 per cent as investors expressed relief at the apparent end of a public row between two of the bank's creators. Page 20

Beeson considers takeover bids
Beeson Gregory, the UK stockbroking and corporate finance house specialising in smaller companies, is considering several takeover approaches. The approaches are believed to have come from rival firms in continental Europe who are seeking to expand in London. Page 28

Crompton Greaves eyes buy-back
Crompton Greaves, one of India's biggest manufacturing groups, has suffered like other industrial concerns since India's economy began to slow two years ago. Last week's announcement by Kewal K. Nohria, chairman, of plans that may lead to a share buy-back programme, is a sign of how far attitudes are changing. Page 24

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MARKET STATISTICS

Bronfman tightens control of Seagram empire

By Christopher Parkes in Los Angeles

Edgar Bronfman Jr yesterday moved to consolidate his control over all corners of the Seagram empire with the removal of Frank Biondi, chairman of Universal Studios entertainment division.

The long-expected resignation coincided with a shake-out which will divide the group into three sectors – music, now part of Universal; drinks; and entertainment interests in film, television and theme parks.

It ended a long period of discord between the two men and reflected increasing pressure on Mr Bronfman from Wall Street and family members, notably his uncle Charles – keeper of the family fortune – to improve results, according to people close to the company.

Ron Meyer, a former talent agency executive and now chief operating officer at Universal, takes charge of entertainment and will report to Mr Bronfman.

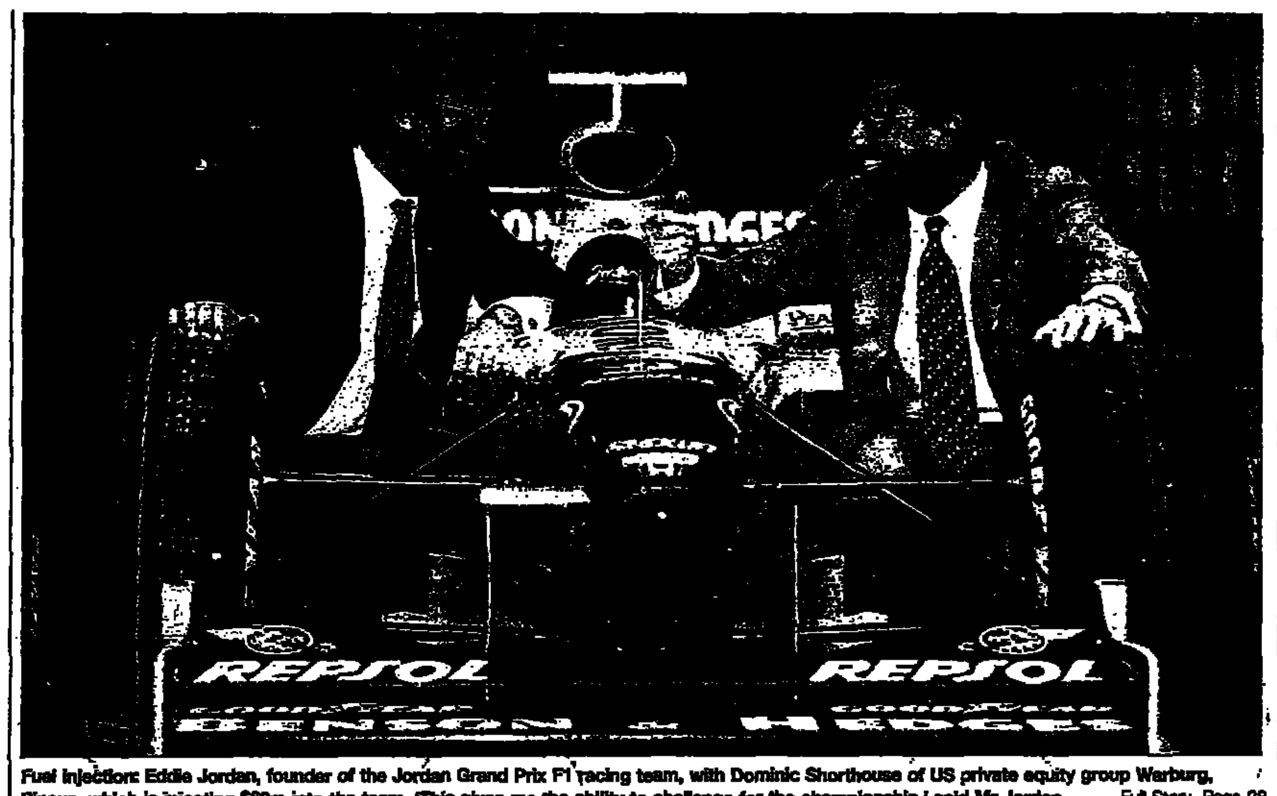
As expected, Doug Morris, music chief, and John Hunter and Steve Kalagher, the heads of the wine and spirits arm, take up similar positions in the hierarchy.

The moves left in doubt the future of Casey Silver, the film studio chief whose productions this year have left Universal in ninth place in terms of US market share.

Meet Joe Black, a costly drama starring Brad Pitt, failed to live up to expectations when it opened at the weekend in third place in the box office rankings. The highly-anticipated sequel to *Babe* is being re-edited after lukewarm responses from preview audiences.

While restructuring had been expected to follow the $10.4bn acquisition of the PolyGram music and film business, Mr Biondi's departure had been predicted since last year after Mr Bronfman set about disposing of most of Universal's TV assets without telling him.

Even before that, the relationship was strained as efforts to improve Universal's prospects failed.



Fuel injection: Eddie Jordan, founder of the Jordan Grand Prix F1 racing team, with Dominic Shorthouse of US private equity group Warburg, Pincus, which is injecting $60m into the team. 'This gives me the ability to challenge for the championship,' said Mr Jordan Full Story, Page 28

Moody's looks at downgrading Nissan and Mitsubishi debt

US rating agency's move could raise cost of borrowing for car groups

By Paul Abrahams in Tokyo

Moody's, the US ratings agency, yesterday warned that it was considering downgrading the debt of Nissan and Mitsubishi Motors, the Japanese automotive groups, to non-investment status.

The move would prevent many international investors holding the groups' bonds, dealing a serious blow to both companies, which are burdened by large debts.

"This is significant for both groups," said Christopher Richter, automotive analyst at HSBC Securities in Japan. "Mitsubishi Motors has gearing of 550 per cent and Nissan 300 per cent. A lot of their debt matures soon and needs to be refinanced. A downgrade would make it even harder to find new financing and would raise the cost of borrowing."

Moody's said it was concerned about the continued economic deterioration in Asia, and particularly Japan, as well as the groups' possible financial exposure to non-consolidated affiliates.

"A lot of the automotive groups have important relationships with dealerships and suppliers and we need to establish how much they will have to support these affiliates," said Takahiro Morita, senior vice-president at Moody's in Japan.

Mr Morita said the review would include an assessment of the strengths of the companies' relative *keiretsu*, or business groupings. Nissan is part of the troubled Fuyo group, while Mitsubishi Motors is part of the stronger Mitsubishi *keiretsu*.

Yoshikazu Hanawa, Nissan president, said his company would strive to avoid a downgrade.

"We are making efforts to reduce our interest-bearing debt and these are proceeding well, so perhaps the problem is insufficient explanation on our part," he said.

Analysts said about half the reviews end in downgrades. The process normally takes two to three months.

Merrill Lynch estimates that Nissan and Mitsubishi are having to pay more than 140 basis points over yen London inter-bank offered rate, compared with Toyota, their rival, which is paying Libor. Toyota's credit rating is Aa1, compared with Baa3, one notch above non-investment grade, for Nissan and Mitsubishi. Nissan's shares closed unchanged at Y333, while Mitsubishi's rose 8 per cent to Y301.

Last month, Nissan revealed that 10 banks had provided it with a Y500bn ($4.1bn) credit line aimed at offsetting the tight financing environment.

Japan Development Bank, the government sponsored financial institution, is preparing to extend up to Y100bn of loans to Nissan.

Lex, Page 18

British Steel blames profit fall on tumbling European prices

By Kevin Brown, Industry Editor

British Steel yesterday blamed a 24 per cent cut in first half pre-tax profits on tumbling European prices, and forecast a loss for the year unless trading conditions improve.

The pre-tax profit of £108m ($179.28m) compared with £143m in the first half of last year. But the gloomy full year forecast cut 7 per cent off the share price, which closed 7½p down at 101p.

Sir Brian Moffat, chairman and chief executive, attributed the poor first half performance to an upheaval in world steel trading – including a surge of imports into the European Union – caused by the Asian economic crisis.

The company was also hit by losses at Avesta Sheffield, the Anglo-Swedish stainless steel specialist majority-owned by British Steel, where low prices and heavy restructuring costs cut £20m from pre-tax profits. Sir Brian said prices for the company's product range had fallen by 5-15 per cent since the first half ended in early October, and by up to 30 per cent over three months.

He said the price falls reflected a surge of cheap imports, which would increase if Washington agreed to demands from US steelmakers for anti-dumping measures against Japan, Brazil and Russia.

Sir Brian called on the European Union to accept similar demands to be tabled shortly by Eurofer, the EU steel-makers' association. "We are not targeting any particular countries for anti-dumping measures, we are simply asking for a level playing field," he said.

He was backed by the Iron and Steel Trades Confederation, the main UK steel union. "The government must act against cheap imports coming into Britain from the Far East and Eastern Europe," said Keith Brookman, the union's general secretary.

Sir Brian said the company was being badly affected by the UK's economic slowdown and a stronger pound. "Our order book has been basically flat for the last nine months or so, and now we are starting to see signs of a decline in all our markets," he said.

He added that the company was considering closing its main plants for an extended Christmas break and more than 1,400 workers would go in the second half.

The board announced an unchanged interim dividend of 3p per share and said it intended to maintain the final dividend at 7p, making 10p for the year.

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NEWS DIGEST

GERMANY

Stinnes head dismissed over plans for takeover

Veba, the German industrial group, has dismissed Erhard Meyer-Galow, head of its Stinnes distribution and logistics division, following a boardroom clash over his plans for a DM1bn ($591.9m) hostile takeover in advance of the partial flotation of the subsidiary next year. Mr Meyer-Galow was relieved of his position after refusing to back down from plans to buy a foreign quoted company, which were opposed by Veba's finance department.

Although Veba would not comment, those familiar with the matter said the company feared the takeover would have damaged Stinnes' profitability and hit Veba's share price. An initial public offering of 49 per cent of Stinnes is to take place in the second quarter of 1999 with the remaining shares sold over the following three years. Analysts value the IPO in the low billions of D-Marks.

The new chairman of Stinnes is Wulf Bernotat, previously head of Veba's oil business. Before joining Veba in 1996, Mr Bernotat worked for 20 years at Shell, mostly in the downstream areas of marketing and distribution.

Last week Veba announced a dip in nine-month profits due to poor performance by MEMC, its silicon-wafer business, and continuing start-up losses at its telecommunications subsidiary. Net income fell 16.2 per cent to DM1.75bn, bringing an end to years of strong profits at Veba, which until recently was celebrated by investors as one of Germany's more dynamic big industrial companies. **Frederick Stüdemann, Bonn**

MANUFACTURING

Bally abandons flotation plans

The planned flotation of Bally, the Swiss luxury shoe company, has been abandoned. Oerlikon-Bührle, the Swiss conglomerate which makes everything from aircraft to vacuum pumps, said that because of the changing economic situation it had decided to abandon the planned Bally spin-off. Instead, it will either inject Bally into a strategic alliance or sell it to an investor with the backing of an investment bank.

Oerlikon-Bührle has been struggling for years to turn round Bally, one of the most famous names in the shoe industry. Efforts have been hampered by management upheavals and a downturn in Asia.

In the first half of 1998 Bally's sales fell 18 per cent, to SFr381m ($273.8m), and it reported an operating loss of SFr64m. The negative trends of the first half have been accentuated in the third quarter because of the Asian crisis, the costs associated with positioning the new brand and additional inventory writedowns. **William Hall, Zurich**

PUBLIC SERVICES

Bouygues may seek partner

Bouygues, the French construction, utilities and telecommunications group under pressure from Vincent Bolloré, the Breton businessman, over control of group strategy, may decide on a new strategic partner for its Saur-Cise public services business by the end of this year. Olivier Bouygues, Saur chairman, said the operation, which will result in the partner taking a stake of up to 40 per cent in the unit, would be conducted via a capital increase. Based on a valuation released earlier this year of FFr6.2bn ($1.09bn) for Bouygues' 84.75 per cent of Saur, the move could result in a capital injection of FFr4bn or more for the public services business.

Saur executives are anxious to position the company quickly to exploit opportunities arising as a result of a global trend towards privatisation of services such as water and sewage. Candidates for the holding are understood to include Electricité de France, which already has an indirect stake in Saur International, and two or three US and UK companies. Saint-Gobain, the French glass and building materials group, is expected to offload its 10.9 per cent stake in Saur-Cise.

Separately, it has emerged that the Commission des Opérations de Bourse, the French market watchdog, has asked Bouygues to start amortising its mobile phone investments from 1998, rather than a year later, as planned. However, the group said it had already taken the change into account in previously published projections for a 1998 telecoms loss of about FFr650m. The company has a 34 per cent stake in Bouygues Telecom, France's third mobile phone operator. **David Owen, Paris**

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Kvaerner warns of further writedowns

By Valeria Sköld in London

Kvaerner, the troubled Anglo-Norwegian construction and shipbuilding conglomerate, yesterday warned it faced possible further writedowns following a NKr1.2bn ($160m) one-off adjustment that wiped out nine-month pre-tax profits.

The company wrote off NKr450m on its long-term investments during the third quarter, mostly from its Sea Launch satellite joint venture with Boeing of the US. The rest stemmed from NKr224m in expected losses on projects, largely in oil and gas fields, and NKr 276m in goodwill and fixed assets.

The writedown reveals the results of a review of the company's books following the ousting last month of Erik Tonseth, chief executive. He departed amid falling profitability as the company struggled to remove debt linked to the acquisition of Trafalgar House in 1996.

Christian Bjelland, chairman and acting chief executive, described the writedowns as realistic, but added Kvaerner could not guarantee the situation would not change. "We have recognised we have tried too much with too little over the past two years," he said.

The setback turned nine-month pretax profits of NKr903m into a loss of NKr1.2bn, including a NKr303m loss from the writedown on its holdings in Norwegian companies Western Bulk and Bergesen.

Although the writedowns were expected, Kvaerner's shares fell yesterday by NKr11 to NKr118 on its failure to reduce its net interest-bearing debt load and fears of further writedowns.

Increases in working capital pushed net interest-bearing debt up from NKr12.1bn at end-June to NKr13.8bn despite the sale of NKr1.4bn in assets for a NKr366m gain.

Operating profit fell from NKr1.3bn to NKr726m as oil and gas operations plunged into the red and shipbuilding posted weak results at Kvaerner's Finnish and Norwegian yards. However, the company improved revenues from NKr53bn to NKr61bn.

Mr Bjelland blamed the "very, very poor" results on unexpected costs and adverse market conditions in in most of Kvaerner's business areas. But he said the results would not make the company default on its bank covenants by year-end.

The company forecast that net interest-bearing debt would reduce NKr8bn-NKr9bn by the year-end after the sale of John Brown Plastics Machinery and Kvaerner Ships Equipment and an expected improvement in its working capital in shipbuilding during the fourth quarter.

TELECOMMUNICATIONS SPANISH GROUP QUELLS SETBACK FEARS AS EARNINGS RISE IN LINE WITH EXPECTATIONS

Telefónica boosted by mobile growth

By David White in Madrid

Telefónica, the Spanish telecommunications group, yesterday quelled rumours of a profit setback when it announced nine-month earnings in line with expectations and 15.2 per cent up on last year.

Spain's fast-growing mobile telephone business provided the main boost to profits, offsetting the effects of competition in Spain's fixed-line telephone market and the economic slowdown in Latin America, where Telefónica has concentrated its international investment.

Consolidated net profit rose from Pta141.79bn in the same period last year to Pta163.35bn ($1.14bn), on a 6 per cent increase in operational revenues to Pta2,148bn. Year-on-year growth in Telefónica profits has slowed from 17.8 per cent for the first quarter and 16.2 per cent at the half-year stage.

Earnings per share showed a smaller 10.2 per cent increase from Pta150.93 to Pta166.34, following a rights issue to finance the group's Latin American expansion.

María Rotondo, analyst at Santander Investment, said the earnings performance was "not bad" and reflected success in containing costs, which were flat overall. It was now clear that mobile telephones had taken over as the main profit-driver, and Latin America had to be viewed as more of a "long-term bet".

The results sparked heavy buying of Telefónica shares, even though the profit increase was at the low end of some analysts' forecasts.

The shares climbed 4.4 per cent to close on the Madrid market at Pta6,350, recovering much of the ground lost last week on speculation that the quarterly results would fail to match analysts' predictions.

The company said 37 per cent of its profit now came from mobile telephones compared with 11 per cent in the same 1997 period. Net profits from the mobile business, in which Telefónica has a 70 per cent market share in Spain, almost quadrupled to Pta61.05bn.

By contrast, net profit at the group's international arm fell 21 per cent to Pta20.04bn, and operating earnings were flat at Pta215.4bn, showing an increase of less than 1 per cent. Revenues rose 9 per cent to Pta675.3bn, making up 27 per cent of total group turnover.

This growth came mainly from Argentina, helped by the peso's link to the US dollar.

The group more than doubled its investments in the period to Pta1,454.5bn – mainly through a summer buying spree in Brazilian privatisations, when it headed a successful $5bn consortium bid for the São Paulo fixed-line operator Telesp and another $1.2bn purchase of two regional mobile businesses.

Merger talk lifts Hoechst, Rhône

Shares surge as talk of a possible tie-up reaches fever pitch, write **Graham Bowley and David Owen**

Shares of Rhône-Poulenc and Hoechst, the French and German pharmaceuticals groups, surged yesterday as rumours of a merger between the two rivals reached fever pitch.

People close to the companies have said a deal is imminent, and according to one source, set to be announced "within days". Speculation that a deal was imminent was fuelled yesterday when it emerged that the French group had hired a second adviser, Goldman Sachs, to work on the deal.

Shares in Hoechst rose 3 per cent yesterday to DM78.30, while Rhône-Poulenc shares ended the day in Paris up FFr8.70, or 3.4 per cent, at FFr264.80.

Uncertainty continued to surround the terms of the deal but it emerged yesterday that Goldman Sachs and Rothschild, which are acting for Rhône, have been in negotiations with Lazard Freres, which has represented Hoechst.

"This is going ahead. It is going to put them in the top tier of companies. It will give them spending power and R&D [research and development] capabilities," said Larry Rosenberg at Renaissance Worldwide, a US management consultant.

Hoechst would not comment yesterday. Analysts were divided on the wisdom of the deal. HMR, Hoechst's pharmaceuticals business, has fallen behind rivals in terms of R&D and new drugs, and analysts said a merger would not address its failings. In particular, the group lacks a large presence in the US, the biggest drugs market in the world.

> **People close to the companies say a deal is imminent and according to one source it will be announced 'in days'**

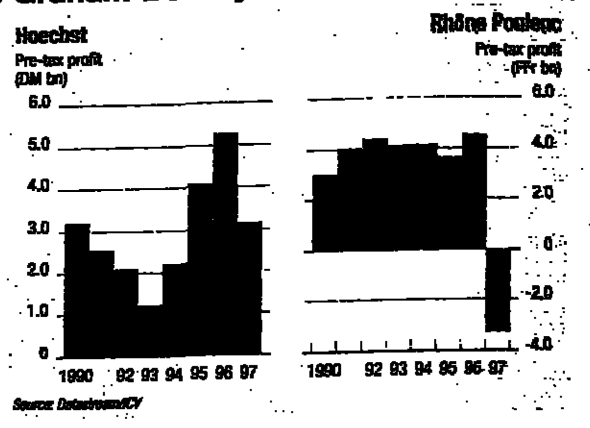
However, both groups' agrochemicals business, already strong, could be further bolstered by a merger.

A further concern has been unrest within HMR, which is now Hoechst's main business.

HMR was created from the merger between Hoechst's pharmaceuticals business and that of companies in the US and Roussel Uclaf of France. But Hoechst is still struggling to integrate the three companies.

Analysts said the German and French companies were a good fit, as they were of similar size and could adopt a pooling of interests merger procedure, which would have tax advantages.

In Paris, analysts are suggesting Rhône-Poulenc may have hastened to the altar by fears it could otherwise fall victim to a hostile bidder, lured by the group's attractive price/earnings multiple compared with other companies in the life sciences sector.



Source: Datastream/ICV

If it were not for this, they suggest, the French group would prefer to wait until next year before consummating a marriage, giving its German counterpart time to offload more chemicals businesses, and possibly making it easier for Rhône to argue it should be not be a junior partner in any tie-up.

In terms of an industrial rationale for a merger, analysts believe Rhône's strong current pharmaceuticals product portfolio would make a good fit with Hoechst's powerful distribution network.

They indicate a tie-up would also ease fears about what they see as a shortage of new products in the French group's pharmaceuticals pipeline.

They nevertheless see the group's vaccines unit, together with Hoechst's diagnostics business, as particular strengths.

HYPOVEREINSBANK PERSONNEL CHANGES STILL LIKELY

Shake-up looms at German bank

By Tony Barber in Frankfurt

The share price of Bayerische HypoVereinsbank, Germany's second largest bank, rose by more than 4 per cent yesterday as investors expressed relief at the apparent end of a public row between two of the bank's creators.

However, banking sources suggested that a personnel shake-up at HypoVereinsbank still seemed on the cards, since the compromise that was struck on Sunday failed to dispel the impression of policy differences at a high level.

They identified one of the most vulnerable figures as Eberhard Martini, a member of HypoVereinsbank's supervisory board and formerly the chairman of Hypo-Bank, which merged with Vereinsbank last September.

The feud between Mr Martini and Albrecht Schmidt, HypoVereinsbank chief executive, was declared over on Sunday after a five-hour meeting in Munich at which the bank's supervisory board expressed its full confidence in Mr Schmidt.

The board also approved Mr Schmidt's proposal to increase the bank's risk provisions by DM3.5bn ($2bn) this year to cover overvaluations of real estate projects, mainly in former communist eastern Germany.

Mr Schmidt, former chairman of Vereinsbank, infuriated Mr Martini last month by blaming these extra risk provisions on mistakes committed by former Hypo officials. Two Hypo-Bank subsidiaries, Hypo-Real and Hypo-Tecta, ran the real estate projects, which flopped after the German mortgage market failed to live up to the hopes placed in it after unification in 1990.

Mr Martini said Mr Schmidt's accusations were baseless and publicly denounced the man with whom he had created HypoVereinsbank as unfit to run a bank. The dispute split the new bank into two camps and cast a shadow over a merger seen in Germany as one of the most significant attempts at restructuring the fragmented banking sector.

The supervisory board sought to smooth over the differences by saying the extra provisions were necessary only because HypoVereinsbank had used a different method of calculation to that employed by Hypo-Bank when valuing the real estate projects.

Banking sources said Mr Martini had not spoken at the supervisory board's meeting, which ended with Mr Schmidt declaring that "the air is now clean". Although the board did not discuss whether Mr Martini should resign, he could leave his post soon with little if any loss of face since he is already 64, the sources said.

The board made clear that some fall-out was certain by declaring that HypoVereinsbank would carry out "a conceptual reorganisation with a corresponding change in management responsibilities".

Observer, Page 17

Ciba-Clariant link fails to impress

Merger of chemical groups seen as offering few advantages, writes **William Hall**

When the two biggest companies in an industry announce they are merging, laying off several thousand staff and taking a hefty restructuring charge, their respective share prices generally soar.

However, last week's announcement of the merger of Ciba Specialty Chemicals and Clariant has failed to generate the same sort of investor enthusiasm.

Although Ciba Specialty Chemicals shares jumped initially, they have been drifting lower since then, and Clariant's shares have dropped 2.5 per cent below their price on the eve of the merger – despite a rising Swiss stock market.

That is hardly a ringing endorsement of the creation of the world's biggest speciality chemical company, with sales of SFr18bn ($12.9bn), a staff of 55,000 and operations in 120 countries.

The merger is designed to generate SFr600m in annual cost savings by 2001, primarily as a result of improved efficiency and a 5 per cent reduction in staff. It should improve earnings by the year 2000, and the group's medium-term targets are to increase revenues 50 per cent faster than global GDP growth and achieve a 20 per cent operating margin.

But many analysts remain unenthusiastic about the merger. The new group's targets are remarkably similar to the old targets of Clariant and Ciba, and the merger is seen primarily as defensive.

"They were both fearful that they might not be able to reach their financial goals and felt they stood a better chance by working together rather than beating each other up," said one analyst.

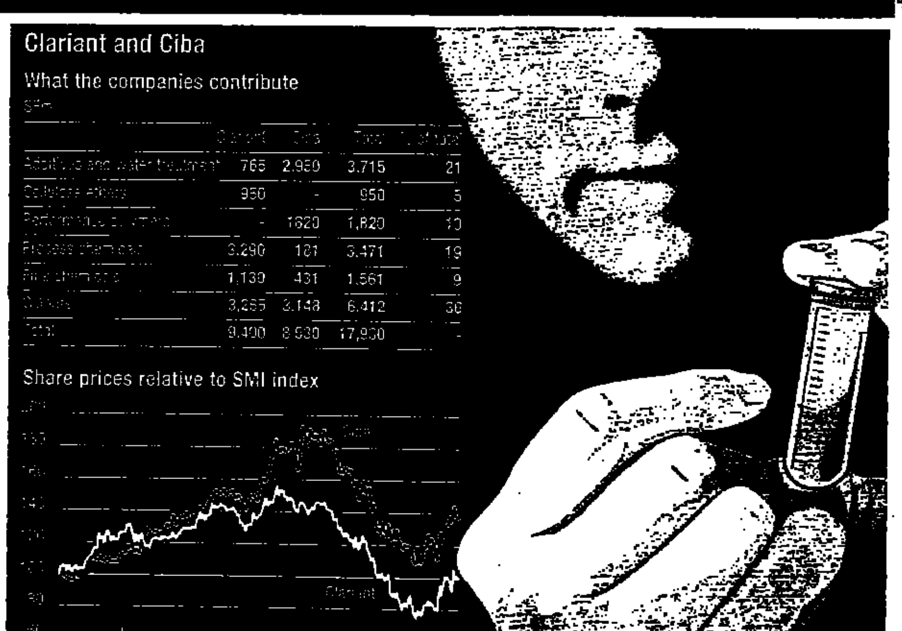
It is hardly a novel idea. A glance into the history of the Basle chemical industry shows that Ciba, Geigy and Sandoz – the forerunners of today's companies – ran a successful dyestuffs cartel for 50 years until the competition authorities broke it up in the 1950s.

Both companies reported disappointing third-quarter sales figures, prompting analysts to downgrade their earnings estimates heavily for this year and next.

Geneva's Pictet & Cie, which had expected Ciba's 1998 earnings per share to match last year's SFr8.4, has cut its forecast to SFr6.9. It has also reduced its 1999 forecast by a third, to SFr8.5. Other brokers expect Ciba to earn less in 1999 than it did in 1997.

Clariant's profit outlook is better, primarily because it has not finished reaping the benefits of last year's acquisition of Hoechst's speciality chemicals business, which tripled its size.

There are other reasons analysts are sceptical. The global speciality chemicals business is highly fragmented, and despite rapid restructuring, highlighted by Zeneca's decision to sell its speciality chemicals business last week, it is still not clear size is as critical as in pharmaceuticals.



Clariant intends to focus on high-value-added speciality chemicals with innovative properties. But the cost of research and development in this area – less than 4 per cent of sales in Clariant's case – is far less of a burden than in the pharmaceuticals industry, where the size of investment needed to discover potential "blockbuster" drugs favours the industry giants.

It also seems unlikely that the merger will reduce the pressure on margins. There are limited areas of overlap between the two, and the real threat for speciality chemical companies is coming from competitors in the emerging markets and the increasing pricing power of global customers.

In common with other analysts, Daniele Scilingo of Bank Vontobel believes Ciba has more to gain than Clariant from the merger. He had expected the old Clariant to expand into faster-growing and less cyclical markets. Instead it is increasing its exposure to mature cyclical businesses, such as textile dyes and chemicals, paper dyes and classical pigments, sectors which will be more affected by the global slowdown.

The final reason the stock market is wary about the merger is valuation.

Goldman Sachs believes the new group is trading on 16 times projected year 2000 earnings, which puts it on a 15 per cent premium to its European peer group. Bank Vontobel argues that, based on enterprise value, it is trading on 7.7 times projected year 2000 earnings before interest and depreciation, a 40 per cent premium to its sector.

The cost-cutting benefits of the merger may have been underestimated in order not to antagonise unions in Germany, which is likely to feel the brunt of any cuts.

Nevertheless, the enlarged Clariant will have to run fast over the next couple of years if it is to avoid disappointing the stock market.

Chain reaction, Page 16

BANKING COMMITTEE TO CONTROL CORPORATE AND INVESTMENT BUSINESS

Citigroup creates single operating body

By Tracy Corrigan in New York

Michael Carpenter and Victor Menezes, the two new heads of Citigroup's corporate and investment banking businesses, have created a single operating committee to oversee the Citibank corporate bank and Salomon Smith Barney, the investment bank.

The move is seen as the first step in the integration of the corporate and investment banking businesses, which have proved a problem area following the merger of Citicorp and Travelers Group in October to create Citigroup, the largest US financial services group.

"We are in the process of integrating the staff organisations, but for the time being the two staffs will continue to operate separately," Mr Menezes and Mr Carpenter wrote in an internal memo to staff, dated November 13.

Difficulties in bringing together its corporate and investment banking businesses led to the forced resignation earlier this month of Jamie Dimon, the newly appointed president of Citigroup and co-chief executive of Salomon Smith Barney. "It wasn't working," said Sandy Weill, co-chairman of Citigroup, who was thought to have been grooming Mr Dimon to succeed him.

Mr Carpenter and Mr Menezes have been charged with accelerating the integration of the two businesses. Deryck Maughan, the former head of Salomon Brothers and newly appointed vice chairman of Citigroup, is overseeing the integration. Mr Maughan is among the 20-strong members of the new operating committee which will meet weekly. In the memo, Mr Carpenter and Mr Menezes wrote that they were "committed to resolving decision items rapidly".

The committee will look at how to create "the most effective and efficient organisation going forward," the memo said.

There will also be quarterly meetings which will incorporate managers from the international business, it added. "This is the first concrete step," said one Salomon staffer. "I still have a wait-and-see attitude but it's the first sign that decisions are being made."

However, morale among investment bankers was further hit by an interview in the New York Times on Sunday with Citigroup co-chairman John Reed, in which he said that investment banks "sort of fly in and fly out" of markets. "I think banks have a more healthy relationship on the corporate side with their customers than do the traditional investment banks." Senior managers yesterday attempted to soothe any hurt feelings among investment bankers, in an effort to ease tensions between the commercial and investment banking sides.

Among the operating committee members are co-heads of global equities Bob DiFazio and Arthur Hyde, who are running that business following the departure last week of Steve Black, widely seen as another casualty of the integration difficulties.

Software giants put their case for world domination

Microsoft and Oracle do public battle at computer industry fair, report **Roger Taylor and Louise Kehoe**

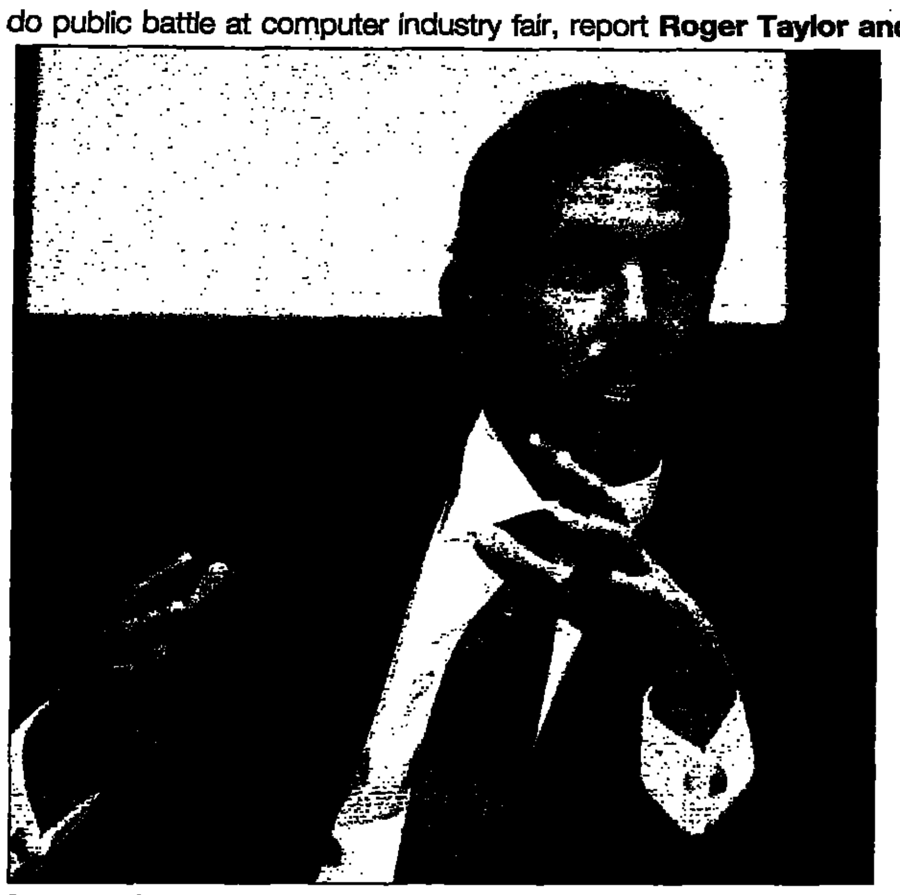
Comdex, one of the computer industry's largest trade fairs, has become the battleground for a long-anticipated clash between the two largest companies in the software industry.

Microsoft and Oracle are on a collision course with each attempting to undermine the other's stronghold. Microsoft aims to unseat Oracle as the leading supplier of database software, while Oracle is determined to undermine Windows, Microsoft's computer operating system software.

Bill Gates and Larry Ellison, the software industry's best known billionaires, opened the Comdex event in Las Vegas, attended by more than 200,000 industry representatives, with sharply contrasting views of the future of computing that support their companies' marketing strategies.

In his opening address on Sunday night, Mr Gates, Microsoft chairman and chief executive, described a world in which the personal computers running the Microsoft Windows operating system become ever more powerful and ubiquitous.

"PCs will go far beyond what systems have been able to do in the past. The PC model has won on the desktop. It will prove itself again [in other areas]," he said.



Screen dream: Larry Ellison wants new computers dedicated to specific tasks AP

These would range from powerful servers using multiple microprocessors to tiny hand-held devices, he said.

In contrast, Mr Ellison, chairman and chief executive of Oracle, the second largest software company and Microsoft's arch-rival, argued in his Monday night speech that the proliferation of PCs was unsustainable because it would lead to highly complex information technology systems.

Instead, Mr Ellison proposed a new approach in which computers are dedicated to specific tasks. Specifically, he announced plans to work with leading computer manufacturers to develop computers that run Oracle's database software without the need for a sophisticated operating system such as Microsoft's Windows.

The tension between Microsoft and Oracle is not new. The companies have been sparring over the direction of computing for several years. But the rivalry has come to a head with Microsoft's launch, at Comdex, of powerful database software that will compete head-to-head with Oracle's flagship database products.

Mr Ellison used his keynote address to press home his view that "internet computing" – in which computers dedicated to specific tasks are linked via standard networks – would displace the use of general purpose PCs and servers.

Internet computing would make the Microsoft Windows operating system increasingly irrelevant, he predicted. Speaking in advance of his presentation yesterday, Mr Ellison described a battle between "Windows and the internet everywhere". He believes internet computing will establish itself as the clear winner in the next couple of years.

Mr Gates' speech on Sunday night made no mention of this potential challenge. Instead, he focused on how Microsoft could extend its operating system with new features such as technology to improve the resolution of text on computer screens. He also stressed the importance of improved user interfaces using both voice recognition and natural language.

Despite their differences, both executives took up one common theme. Both see a need for greater simplicity in computing.

While Mr Gates intends to achieve this through the use of sophisticated technologies that enable computers to adapt to the way users work, Mr Ellison favours the more radical approach of dedicating computers to specific tasks – whether they be database servers or desktop network computers.

However, both are dependent upon the manufacturers of computer systems to further their goals. In this regard, Microsoft is clearly ahead of the competition. The company has strong ties with most of the world's leading computer companies. Yet Mr Ellison maintained that his new approach to computing will appeal to computer makers because it eliminates Windows, cutting their costs.

NEWS DIGEST

SOUTH AFRICA

Barlow to restructure as net profits for year fall

Barlow, the South African conglomerate, yesterday announced a slight decline in net profit for the year to September 30 but said its extensive programme of disposals and restructuring would yield an improvement in earnings in 1999. Net profit excluding exceptional items fell 1 per cent to R680m ($118.3m) from R685m the previous year, on turnover of R20.54bn, up from R19.39bn. Tony Phillips, the new chief executive, said difficult conditions in South Africa were offset by growth in Europe and the US. International operations accounted for 57 per cent of Barlow's net profit, he said, compared to 37 per cent in 1997.

Mr Phillips said Barlow, like other big South African companies, was considering moving its primary stock exchange listing from Johannesburg to London, but discussions were not at an advanced stage. "We're a lot happier than we were a year ago with the structure of the group," Mr Phillips said. "We have modernised and removed substantial costs from our South African manufacturing facilities. We've disposed of underperforming and non-core businesses and substantially strengthened the balance sheet. We're expanding in Europe, in the US, in Russia and in Africa."

Recent deals completed by Barlow include the sale of half its stake in Comparex, the information technology group previously known Persetel Q Data Holdings, for R1.38bn. The group is also selling its paper businesses in Europe and its South African building materials operations.

Barlow's capital equipment division, which supplies Caterpillar machines in various African and European markets, is the biggest contributor to turnover and profit. The company said strong growth in Spain and Portugal and expansion in Africa had more than compensated for lower income from South Africa itself.

Dividends for the year were unchanged at a total of 124 cents. **Victor Mallet, Johannesburg**

ELECTRONICS

Sales rise boosts Tadiran

Tadiran, Israel's leading electronics company, yesterday said net income rose 13 per cent during the first nine months, and was fuelled by increased sales from more profitable products and projects.

Net income climbed from $49.8m in the first nine months of 1997 to $56.3m in the period this year. Revenues rose 10 per cent from $855m to $864m over the same period. Analysts said Tadiran had successfully offset the loss of its biggest domestic client last year with an increase in exports, which now account for about 57 per cent of the group total.

Earlier this month, Koor Industries, Israel's biggest holding company and Tadiran's parent, launched a plan to take Tadiran private by buying all outstanding shares for Shk134 a share. The move is part of Koor's strategy of consolidating and rationalising its high-growth technology assets. Shares in Tadiran closed down 23 per cent yesterday to Shk129.6 in Tel Aviv yesterday. The shares are also listed on the New York Stock Exchange.
Avi Machlis, Jerusalem

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CANADA STORES RENOVATED TO ATTRACT YOUNGER CUSTOMERS

T. Eaton chief goes as retailer issues warning on earnings

By Scott Morrison in Toronto

T. Eaton, the Canadian retailer, yesterday announced the resignation of its chief executive and warned that third-quarter earnings would be less than expected due to lower than anticipated sales and pressure on margins.

Canada's second oldest retailer, which emerged from bankruptcy last year, said overall sales in the third quarter ended November 7 continued to grow although not as quickly as the company had forecast. Eaton said sales of priority fashions continued to increase, but sales of hard goods had fallen off more quickly than anticipated.

Eaton, which operates 64 department stores, is attempting to update its old-fashioned image by renovating stores, withdrawing from the hard goods business and offering brand name fashions to attract younger shoppers. But Jim Okamura, a retail analyst with JC Williams Group, suggested that the company has yet to clearly define its new image.

The company attributed lower-than-expected results to a restructuring provision and other costs associated with the exit from hard goods, promotions to clear inventories, and a moderation of consumer confidence.

Eaton, which was expected to earn 35 cents a share in the third quarter, would not provide more details about its third-quarter results. It reported a second-quarter operating loss of C$20m (US$12.9m), and a net loss of C$44m, on revenues of C$317m. It said it expected to report an operating profit for fiscal 1999, but given restructuring costs, declined to forecast when it would report a net profit.

Eaton also announced the resignation of George Kosich, who was appointed president and chief executive in June 1997 with a mandate to guide the company though a court-supervised restructuring and develop a new business strategy.

Brent Ballantyne, Eaton chairman, said yesterday the board felt that Mr Kosich had achieved those goals and that new leadership was appropriate to move the company forward.

Some observers were sceptical of Mr Ballantyne's claim that Mr Kosich's resignation was not related to the profit warning. The chairman praised the outgoing chief executive's strategy and expressed confidence that the company's business plan would eventually show positive results.

But the short-term outlook for Eaton's investors remains bearish, as the stock slipped 35 cents to C$4.70 following the announcement. Issued at C$15 a share during the company's C$180m IPO in June, Eaton's stock has been eroded as the company revised earnings forecasts downwards.

Bristol-Myers to take breast implant charge

By Tracy Corrigan

Bristol-Myers Squibb, the US-based pharmaceuticals company, said yesterday that it would take a fourth-quarter charge of $400m-$500m to increase its reserves for liability in breast implant litigation.

The charge is expected to cover the final cost of its breast implant product liability. The company said in a statement that the charge should allow it to "complete its trial and settlement strategy, putting the issue behind it".

The charge will be used to cover anticipated payments under a 1995 global settlement and also the cases of women who opted out of that settlement.

Most breast implant cases against three leading manufacturers – Baxter International, 3M and Bristol-Myers – were covered by the 1995 settlement. Last week, Dow Corning, the largest manufacturer, which was not covered by that plan, filed an agreed settlement totalling $3.2bn with thousands of breast implant litigants. Dow Corning went into Chapter 11 bankruptcy protection in 1995 as claims mounted and a settlement is seen as a lynchpin of its bankruptcy restructuring.

Bristol-Myers shares rose $1⅛ to 111⅞ in early trading yesterday.

Some of the additional reserves may also be used to cover liability as a result of prescription drug pricing litigation. The company said that an estimated $375m-$435m of the reserves, after tax and additional expected insurance recoveries will be for breast implant liabilities.

Both Moody's and Standard & Poor's, the US-based ratings agencies, reaffirmed Bristol-Myers' triple-A long-term debt rating. S&P cited the company's near-$1.5bn in cash, limited debt and broad financial strength.

Bad loans rise at Venezuela banks

By Raymond Colitt in Caracas

The loan portfolio of Venezuela's banks has continued to deteriorate in recent months, reflecting the slowdown in economic growth and the impact of high interest rates. Bad loans have jumped 71 per cent in only four months from BS146bn in June to BS250bn ($440m) in October, according to the latest report from Softline Consultores, a leading financial consultancy.

Bad loans now make up 4.78 per cent of the overall loan portfolio, up from only 2.26 per cent in January, said Softline.

With economic and political uncertainty before presidential elections in December, interest rates shot to an average 77 per cent in September, dramatically slowing economic growth and diminishing the private sector's ability to service its debt.

"There is very little credit demand," said Juan Carlos Zorrilla, head of Banco Provincial, the country's largest bank, this month. Interest rates on commercial loans have since fallen but are 20 per cent above the expected year-end inflation rate of 33 per cent.

"We have not touched bottom yet," said Jose Grasso, head of Softline, "we expect the [bad loan] rate to hit 6 per cent by year-end and to continue rising during the first quarter of 1999."

The latest figures come a fortnight after the Superintendency of Banks sought to offset the risk of bad loans by requiring additional reserves for high-rate loans and prohibiting these to be renewed beyond their original expiry date. The banking sector rejected the move as an attempt to control interest rates that could weaken rather than strengthen smaller financial institutions.

Yet analysts indicate that Venezuelan banks today are much more solid than in 1994, when half of the financial sector collapsed and was bailed out by the government. Loan provisions are, on average, much better and regulators have tightened their control.

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CONSUMER LOANS MOVE SIGNALS GROWING CONFIDENCE IN JAPANESE GROUP

Takefuji set for first-section TSE listing

By Julie Hess in Tokyo

Takefuji, Japan's largest consumer loan company, was poised to list its shares on the first section of Tokyo's stock exchange, the company said yesterday, in an unusual move that shows growing confidence in the group.

Takefuji's shares are currently traded over the counter and not yet listed on the second section, where companies usually trade before listing on the first.

The company hopes that a listing would broaden its shareholder base by attracting more domestic institutional investors, who are often restricted to investing in the first section of the Tokyo exchange.

At present, a high proportion of the company's equity is held by the founder's family and by foreign investors.

A first-section listing would also lift the prestige of Takefuji, which has been attempting to shed its "loan shark" image and improve its name recognition.

Last week, the group unveiled strong half-year results. Analysts yesterday said the planned listing illustrated how consumer finance was one of the few buoyant parts of the financial sector.

"The moment for the listing seems to be well chosen," said Paul Heaton, financials analyst at Deutsche Morgan Grenfell.

Takefuji refused to comment on the plans. However, Nikkei, the Japanese financial daily, reported that the company would list in December, with Warburg Dillon Read as lead underwriter.

This would be the first time a foreign broker has been used to list a Japanese group on the TSE.

The planned listing by Takefuji follows a recent surge in its share price, which has outperformed the Topix by about 40 per cent over the past year. The shares yesterday closed at Y7,750, up from Y7,200 the previous day.

Analysts yesterday said that, in a depressed economy and crisis-ridden financial sector, Takefuji stood out with double-digit profit growth and a positive outlook.

The company forecast an increase of 11 per cent to Y73.7bn in unconsolidated net profits for the full term.

"Takefuji is doing very well. The first-half year's results have been better than expected, so we are planning to raise our profit forecast," said Walter Altherr, financial analyst at Jardine Fleming.

In the six months to September, the company increased its consolidated operating profit by 20 per cent to Y79.8bn ($653m) and its net profit by 39 per cent to Y41.3bn.

Crompton Greaves looks for Indian summer with buy-back

The Indian economic slowdown has led to a restructuring to restore confidence at the industrial group, writes **Krishna Guha**

A company's profits slump, its share price gets hammered, the chairman announces a review and promises to get out of joint ventures that are not adding value – returning money to shareholders through a share buy-back programme.

Conventional practice in the UK or US – but not in India, where buy-backs were only legalised this month.

The shake-up announced last week by Kewal K. Nohria, chairman of Crompton Greaves, is a sign of how far attitudes are changing under the economic slow-down.

Crompton Greaves is one of India's biggest manufacturing companies, controlled by the wealthy Thapar family. Like other industrial concerns, it has seen its profits and share price plummet since India's economy began to slow two years ago.

Pre-tax profits fell from Rs800m ($18.9m) in the year to March 1996, to Rs206m last year. The company's share price collapsed from a peak of Rs263 to Rs17 in late 1997, before recovering to the low Rs30s. Shareholders – including holders of Crompton Greaves global depositary receipts – are mutinous.

Mr Nohria is trying to win back their confidence with a review of Crompton Greaves' 15 joint ventures, likely to lead to disposals that would fund a buy-back programme. It will give the signal for enhancement of the share price. "Shareholders will know I am not emotionally attached to these businesses," he says.

Mr Nohria has restructured Crompton Greaves several times since taking charge in 1985 in an effort to improve productivity, quality and sales growth. In 1991, he ended the functional division between marketing and manufacturing, organising business activities along product lines. In 1995, he reorganised these divisions into four strategic business units: power systems, industrial systems, consumer products and digital.

The latest review is different. "Restructuring is taking the perception of the shareholder as the main concern," he says. This means starting with Crompton Greaves' joint ventures in software, cellular phones and adhesive tape, formed after India began to open up its market in 1991.

Only a couple are loss-making, but investment in their equity and debt puts a heavy burden on the parent company's balance sheet. Indian accounting law does not permit consolidated accounts.

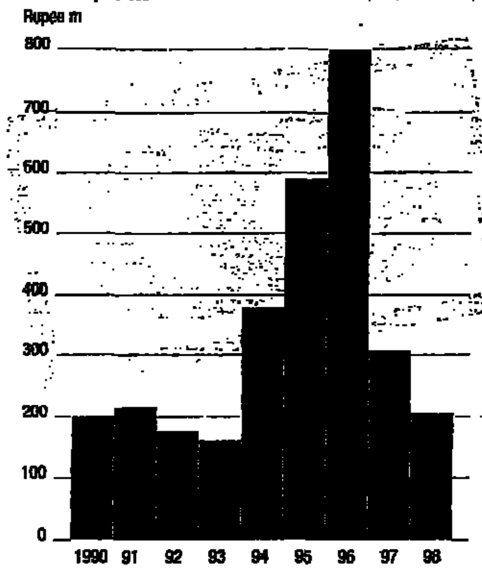
"This drag became visible when profits fell from Rs800m to Rs206m," says Mr Nohria. "People started asking why the hell are you using my money?"

He says the decision to form joint ventures was logical at the time. After 1991, international companies became reluctant to license technology to Indian companies without taking an equity stake. Joint ventures ensured Crompton Greaves would not be marginalised or cut off from the inflow of new products and processes. They also offered the chance to make seed-bed investments in new markets with high growth potential.

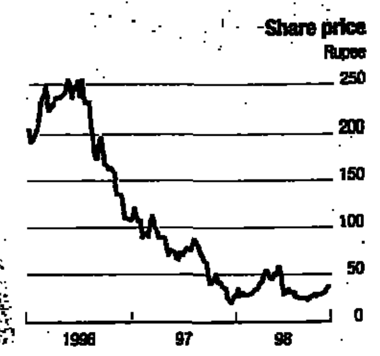
"It was a way of leveraging your name, your standing in the marketplace and brand equity," says Mr Nohria. A number of these investments have appreciated in value, for example, Skycell, the cellular phone joint venture in Madras. "I invested Rs250m [in Skycell]. People are offering me Rs1.2bn or Rs1.3bn. If I get Rs2bn I might get out," he says.

Fall from grace

Pre-tax profits*



Share price



Core businesses
Rupee bn

Business	Sales last year	Pre-tax profit/loss last year
Power	6.3	223
Industrial	5.7	317
Consumer	4.2	–85
Digital	0.72	–249

Sources: Datastream/ICV; company * Financial year ending March 31

However, he admits that there is little synergy between the constellation of joint ventures and Crompton Greaves' core businesses – only about three or four are strategic to operations.

The review, which will take between 12 and 18 months, will consider what to do with these ventures. Options include strategic sales and hiving off unrelated interests into a separate investment vehicle. This would relieve the burden on the parent company, which is going through a bad patch.

Mr Nohria insists the company is fundamentally sound, and blames the recent slump in profits on low investment in power – Crompton Greaves' most important client industry.

Before 1995, capacity was increased annually by 4,000MW to 5,000MW; in the past three years, capacity addition has been 2,500MW, he says. Public investment fell, but private projects did not take off. Mr Nohria hopes private investment will pick up from next year. Meanwhile, the power and industrial systems units will hunt for export markets.

He promises to step up efforts to restructure Crompton Greaves' two other business units – consumer products and digital telecommunications equipment – which are losing money.

"If some division does not stop bleeding I will probably give them no more chances," he says. "That will stop the drain on the profit my other divisions are making."

He is convinced that focus on profits and a more shareholder-friendly business structure will win back the markets' favour. "I made a very bold statement that by 2001-2002 the share price will be Rs200 plus. It was Rs31 when I made that statement." A few days later, Crompton Greaves is trading at Rs38. Mr Nohria is standing by his prediction.

Decision on sale of NTT fourth tranche near

By Michiyo Nakamoto in Tokyo

The Japanese government will decide by the end of the week whether to go ahead with the sale of a fourth tranche of shares in NTT, the telecommunications giant.

The finance ministry has already named Daiwa Securities, Goldman Sachs and SBC Warburg as global lead managers for the issue.

However, it has not yet decided whether to proceed with the issue this year, according to a finance ministry official. "We are watching market conditions to make the decision," he said.

The government is under pressure to raise funds by selling assets to finance a series of economic stimulus packages and tax cuts adopted to kick-start the ailing Japanese economy.

The sale could raise more than Y900bn ($7.4bn) for the government. However, the tranche would have raised Y1,000bn when the finance ministry initially indicated that it was considering a sale.

NTT's share price has slumped in the past few months, from a peak this year of Y1.28m to a year-low of Y819,000 on October 5. The shares closed at Y923,000 yesterday. NTT has 15.9m shares in issue.

Moves by investors to sell their NTT shares in favour of NTT Docomo, NTT's cellular phone subsidiary which saw its share price surge in the wake of its initial public offering last month, were seen to be behind the fall.

NTT is expected to face fierce competition in most of its traditional markets and unlikely to enjoy the kind of growth expected of its cellular offshoot.

Domestic telephone call revenues have been hit by price competition and a decline in subscriber numbers.

For the year to March, pre-tax profits before exceptionals are forecast to fall from Y356.6bn to Y285bn.

The finance ministry still owns 65.4 per cent of NTT, which has been urging the government to sell more of the shares.

The telecoms company has frequently complained that government control has made it difficult for it to compete in an increasingly cut-throat market environment.

Previous attempts to sell the shares had to be put off because of difficult market conditions and declining prices.

However, market conditions have been relatively stable in the past few weeks. This year the finance ministry has set aside 1m NTT shares for a possible sale, rather than the 500,000 normally included in its annual budget proposal.

Nikko closes HK securities operations

By Louise Lucas in Hong Kong

Nikko Group of Japan yesterday axed its Hong Kong securities and futures operations, dealing a further blow to the territory's financial services sector.

Nikko's retreat from Hong Kong is part of a global restructuring following the August share-swap agreement with Travelers Group of the US. The deal brought Nikko under the same roof as Salomon Smith Barney, which has a far bigger presence in Hong Kong.

The move follows closures of similar overseas operations by Japanese financial institutions. Hong Kong has borne the brunt of the Japanese retrenchment.

Hong Kong has long been a key market for Japanese banks and financial institutions, but the recessionary environment – combined with a halt in capital-markets activity – has made it less lucrative in 1998.

Nikko signalled its retreat from Hong Kong at the beginning of the year when it closed its fixed-income department and reduced other operations. In September, it was the turn of the securities' research division. Regional offices were also scaled back or closed.

The latest closures affect Nikko Securities (Asia), Nikko Securities (Hong Kong) and Nikko Futures (Hong Kong). Order taking will continue until the end of this month. After that, business will only be open for those closing accounts. The group plans to cease operations entirely on January 15, with the loss of about 100 jobs.

This year has seen employment badly hit in Hong Kong's financial services sector, beginning with the collapse of Peregrine, the pan-Asian investment bank, in January through to cuts this month by Salomon Smith Barney and Barclays Capital.

In between, the roll-call of investment banks and securities houses shedding staff includes Warburg Dillon Read, Merrill Lynch, ING Barings, Jardine Fleming and Indosuez WI Carr.

Nikko staff say their own fate was signalled in August, when the deal with Travelers Group was unveiled. "There's no such thing as a merger: one side takes over the other, and it's pretty obvious which side will get jettisoned where there's overlap," said one former employee.

Home weakness hurts Kyocera

By Michiyo Nakamoto

Kyocera, which makes high-tech ceramic products, suffered a sharp downturn in first-half profits amid a fall in demand at home and severe price competition in many of its markets.

Group pre-tax profits fell 37 per cent to Y33.8bn ($276m) on sales up 1.2 per cent to Y358.3bn in the six months to September. Net profits slumped 33 per cent to Y16.6bn.

Buoyant sales in some overseas markets partly offset difficult conditions at home, where weak demand for telecommunications equipment and cameras held back sales.

Kyocera expects conditions to remain difficult in the second half, with uncertainty in the US and European market adding to domestic woes.

The telecoms division, where demand for personal handy phone handsets and base stations declined, suffered a 9 per cent fall in sales. PHS was developed as a cheap alternative to cellular phones, but its sales dropped as cellular phone rates fell sharply.

NTT, a key developer of PHS, recently transferred the business to NTT DoCoMo, its cellular phones arm, conceding that PHS would not survive as an alternative to cellular phones.

Sales of fine ceramic parts dropped 2.5 per cent to Y23.5bn owing to the shift from ceramic to plastic packages by a big customer. Kyocera plans to begin full production of plastic packages in the second half.

Sales in the optical instrument division dropped 10 per cent, largely as a result of poor camera and video sales amid the Japanese recession.

Strong demand for its new 8-page-per-minute printer supported a 5 per cent increase in sales of information equipment to Y19.3bn.

Kyocera expects sales of Iridium handsets and GSM and CDMA handsets to contribute to a rise in second-half sales. However, in the full year a 3 per cent rise in sales to Y744bn will not offset a 24 per cent decline in pre-tax profits to Y80bn and a 17 per cent drop in net profits to Y39bn.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 17.11.98 / Final Prices for Trading on 28.10.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	20.06	10.42	10.42	0.00
0100	20.06	9.50	9.50	0.00
0130	18.45	9.80	9.80	0.00
0200	18.46	15.50	15.82	0.85
0230	18.45	17.00	17.32	0.85
0300	9.36	17.00	17.32	0.85
0330	9.37	17.00	17.32	0.85
0400	18.45	15.50	15.82	0.85
0430	17.92	15.50	15.82	0.85
0500	17.92	15.50	15.82	0.85
0530	9.37	14.80	15.12	0.85
0600	9.38	14.80	15.12	0.85
0630	20.68	14.80	15.12	0.85
0700	26.88	20.47	20.79	0.85
0730	25.68	31.15	31.56	0.85
0800	30.54	37.08	37.60	0.85
0830	23.48	37.22	37.78	0.85
0900	33.69	37.26	37.83	0.85
0930	35.52	37.08	37.60	0.85
1000	35.54	37.15	37.69	0.85
1030	35.55	31.81	32.16	0.85
1100	35.58	31.87	32.24	0.85
1130	35.58	37.24	37.81	0.85
1200	53.13	37.25	37.82	0.85
1230	53.10	37.07	37.58	0.85
1300	53.07	36.87	37.31	0.85
1330	33.72	26.20	26.58	0.85
1400	33.73	23.16	23.52	0.85
1430	33.72	23.15	23.52	0.85
1500	33.73	23.13	23.50	0.85
1530	31.17	23.16	23.53	0.85
1600	32.09	20.85	21.31	0.85
1630	70.59	25.31	25.97	0.85
1700	110.00	35.09	36.09	0.85
1730	136.71	35.88	37.08	0.85
1800	118.45	39.33	41.51	0.85
1830	73.61	53.77	55.66	0.85
1900	50.18	70.97	74.06	0.85
1930	40.21	67.28	69.57	0.85
2000	38.37	40.72	41.61	0.85
2030	33.88	26.07	26.53	0.85
2100	33.61	25.72	26.07	0.85
2130	30.53	25.55	25.97	0.85
2200	28.48	22.64	22.96	0.85
2230	28.48	15.46	15.77	0.85
2300	21.03	14.80	15.12	0.85
2330	9.36	14.80	15.12	0.85
2400	9.35	14.80	15.12	0.85

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of [illegible]

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Nikko closes HK securities operations

Home weakness hurts Kyocera

EDGAR BRONFMAN JR AIMS TO FOCUS ON ENTERTAINMENT JUST AS THE MUSIC INDUSTRY FACES SLOWER GROWTH

More melodies than martinis

By Alice Rawsthorn and John Willman

Losing the head of your entertainment division on the eve of concluding an $11bn bid to expand it sounds like bad timing, but that is what Edgar Bronfman Jr, Seagram chief executive, did yesterday when he announced the departure of Frank Biondi, chairman of Universal Studios.

The news is scarcely a surprise in a year when no Universal film has earned more than $40m at the US box office.

His fate seems to have been sealed by the critical drubbing of *Meet Joe Black*, the $90m Brad Pitt picture which opened only third at this weekend's box office, and by last week's news that a $90m *Babe* sequel had been postponed by editing delays.

Mr Biondi's widely leaked departure is the latest in a series of blows for the drinks and entertainment combine since Mr Bronfman unveiled plans in May to buy PolyGram, the world's biggest music group. Currency changes have added $600m to his original $10.4bn offer price and Seagram's hopes of raising $750m by selling PolyGram's film division have evaporated.

Investors have already expressed their opinion of the PolyGram deal, with Seagram shares down 24 per cent against Standard & Poor's Composite Index since the acquisition was announced. S&P has downgraded its credit rating from A to BBB-, one category above junk bonds.

With the PolyGram bid scheduled for completion in the second week of December, five weeks later than expected, Mr Bronfman now faces the challenge of restoring investor confidence in the company his grandfather created.

The crux of that strategy is to turn Seagram from a drinks business into one dominated by entertainment. Mr Bronfman began in 1995 by buying 80 per cent of the old MCA entertainment empire (now Universal Studios) for $5.7bn. Universal's film business has since floundered, culminating in Mr Biondi's departure, but its smaller music division has thrived.

Mr Bronfman, a part-time songwriter, has a love of music and is said to feel more comfortable with it as a business than the volatile, highly leveraged film industry. When Philips, the Dutch electronics group, put its 75 per cent stake in PolyGram up for sale this spring, he jumped at the chance of turning Universal Music into a global powerhouse.

The acquisition will change the group from one that derives less than 60 per cent of its revenues from entertainment to one more than 70 per cent dependent on music, films and theme parks. Drinks falls from more than 40 per cent to less than 30 per cent of the business.

The Bronfmans, accustomed to running Seagram as a family firm rather than a public company, will own 23 per cent of the new group against 37 per cent at present and Philips will become a sizeable minority shareholder with up to 12 per cent.

Mr Bronfman is gambling that by adding PolyGram's 17 per cent of the $38bn global music market to Universal's 6 per cent, he can cut their combined costs by at least $275m a year. Seagram has hired Boston Consulting Group to advise it on the restructuring, which is expected to shed 20 per cent of PolyGram and Universal Music's 15,500-strong workforce.

A few senior posts have been confirmed, but details of other changes have leaked out in the press and the mood at both PolyGram and Universal has become increasingly insecure as the bidding process has dragged on.

Such uncertainty is damaging in a fiercely competitive market like music, where successful companies need not only to motivate their employees but to win the confidence of their often-temperamental recording artists too.

So far, PolyGram and Universal Music appear to have emerged unscathed: PolyGram performed poorly in the first half of the year, but rallied in the third quarter and is on course for a strong fourth quarter. Yet music is such a fast-changing industry, where companies must constantly reinvent themselves, that the damage caused by six months in which PolyGram and, to a lesser extent, Universal have found it hard to sign new acts or distribution deals may not emerge until next year.

Mr Bronfman claims that the financial benefits of the restructuring will compensate for the pain and expense, estimated at up to $600m.

However, pessimists suspect that Seagram may have become the world's biggest music business at a time when the once-robust industry is entering a new cycle of slower growth, increasingly fickle consumer taste and rising internet piracy. If these fears prove founded, the outlook for the enlarged Universal Music may be darker than Seagram hopes.

All the management attention on the entertainment side has left the drinks side as something of a backwater when the economic and currency crises in Asia have hit it hard.

Almost a quarter of the spirits and wine division's sales were in the Asia-Pacific region two years ago, a figure that has fallen to 13 per cent – the main cause of a 20 per cent fall in the division's earnings in the year to June 30.

Industry observers have speculated that Mr Bronfman has little love for the wines and spirits division and that the only obstacle to selling it was the emotional attachment to it of older members of his family. The business is profitable and generates strong cash flows, but it is part of a sector that is slow-growing in the advanced economies and exposed to volatility in the emerging markets, where there is greatest potential for growth.

But the merger last year of Grand Metropolitan and Guinness to form Diageo, the world's largest drinks group, has forced the whole industry to reassess strategy. Diageo has drinks sales of more than twice its nearest competitors, a presence in all the world's big spirits markets and an array of leading brands such as Johnnie Walker scotch, Gordon's gin and Smirnoff vodka. Most analysts have assumed that the other drinks companies will have to merge or form joint ventures to match its reach and cost advantages.

Seagram has held talks with possible suitors including Allied Domecq, the UK group, and Bacardi-Martini, the Bermuda-based owner of the white rum that is the world's best-selling spirits brand. But they have foundered over the reluctance of the Bronfmans and potential partners to cede control of any new venture.

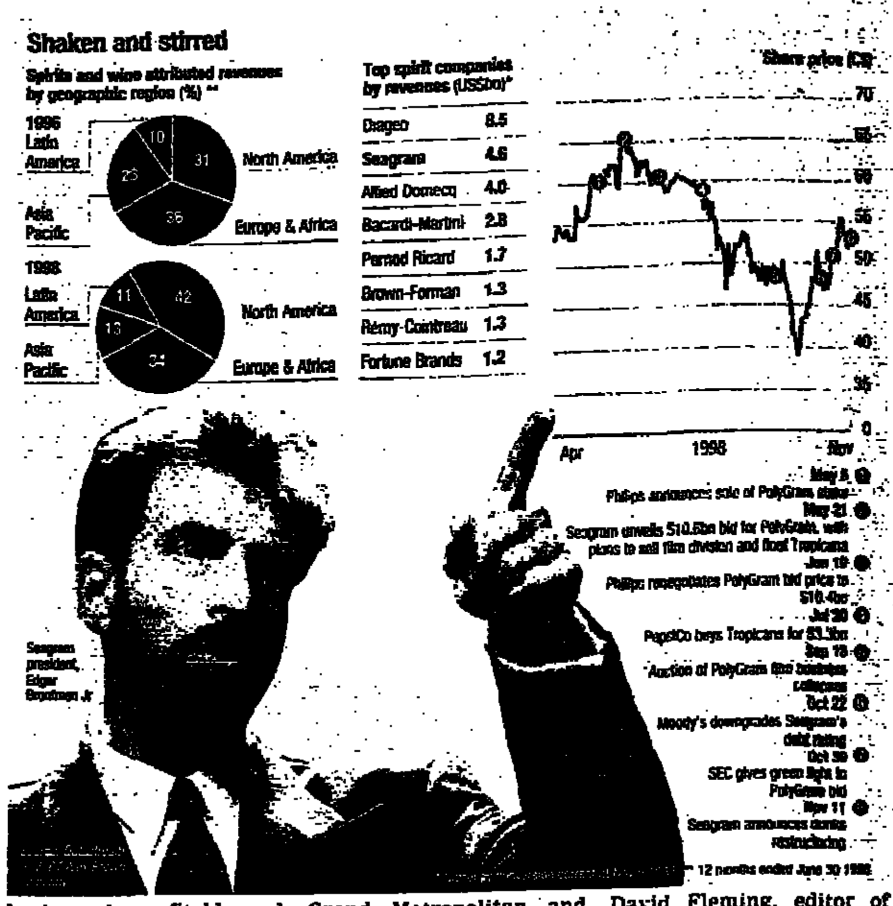
"It's simply that 51 per cent and 51 per cent don't add up to 100 per cent," says David Fleming, editor of Impact International, the industry newsletter.

Last week, Seagram announced a shake-up of Spirits & Wines designed to end speculation over a sale or even a global tie-up with another drinks group such as Allied Domecq. Management has been centralised in the division's New York headquarters in an attempt to give Mr Bronfman greater control over its operations.

Yesterday Seagram announced a similar restructuring of its entertainment divisions, following the departure of Mr Biondi. Mr Bronfman clearly believes he must take a stronger grip on the group if he is to dispel the doubts over his strategy among employees and investors – who include many family members.

"The proof is in the share price," says Jill Krutick of Salomon Smith Barney in New York. "If it begins to recover, everyone will call the changes heroic."

Shaken and stirred



Top spirit companies by revenues (US$bn)*

Diageo	8.5
Seagram	4.6
Allied Domecq	4.0
Bacardi-Martini	2.8
Pernod Ricard	1.7
Brown-Forman	1.3
Rémy-Cointreau	1.3
Fortune Brands	1.2

* 12 months ended June 30 1998

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BUSINESSES FOR SALE

INVESTMENT FUND INJECTION BY EQUITY GROUP WILL HELP JORDAN COMPETE WITH FERRARI AND MCLAREN

Warburg, Pincus invests $60m in F1 team

By Patrick Harverson

Warburg, Pincus, the US private equity group, is acquiring almost half of Jordan Grand Prix, the Northamptonshire-based Formula One motor racing team, for about $60m in the first direct investment by a financial institution in the world's most popular motor sport.

The cash injection is a big boost for Jordan, a relative newcomer to F1.

After last season's successes, when Jordan won its first Grand Prix through Damon Hill's triumph in Belgium and finished fourth in the constructors' championship – its highest ever placing – the team was keen to secure new funds to take on more established and richer F1 teams such as McLaren, Ferrari and Williams.

Eddie Jordan, the colourful Irish founder-owner who will keep a majority stake in the company, said of the investment: "This gives me the ability to challenge for the championship."

After seven years in F1, he said the team, the only one in F1 owned outright by its founder, had reached a point where it needed to bring in a commercial partner to sustain the improvement in its competitiveness on the race track.

"There is a stage in this business where you need to go to another level," said Mr Jordan.

Warburg, Pincus intends to work with Jordan in developing new businesses around the team's brand, possibly in such areas as clothing, accessories and road cars.

Dominic Shorthouse, the managing director in the equity group's London office who put the deal together, said he believed Jordan's image as a young F1 team with a highly-recognisable owner and a big following among female racing fans put it in a good position to "develop other streams of income" from the brand.

Exact details of the investment were not revealed, but Warburg, Pincus is buying more than 40 per cent of the team from Mr Jordan in a transaction valuing the company at about $130m.

The group will not be paid any dividends from the business, which employs 180 people and last year made a profit of about $7m on turnover of $60m.

About 60 per cent of Jordan's revenues comes from sponsorship – its main backer is the Benson & Hedges cigarette brand – with the remainder coming from television income, plus a small contribution from merchandising and other commercial activities.

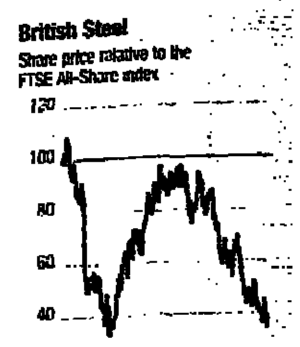
Mr Shorthouse said his group's investment in Jordan was a long-term commitment for at least six to seven years. A flotation of Jordan at some stage in the future was a possibility, he added.

Mr Jordan said some of the proceeds from the equity sale would be used to secure his family's financial future, but most of the money would be spent on the racing team and its distinctive bright-yellow cars, which will be driven next season by Hill and his new team-mate Heinz-Harald Frentzen.

COMMENT

British Steel

The humiliations of British manufacturing industry continue apace. After being ejected from the FTSE 100 in September, British Steel yesterday warned of a full-year loss. Compared with £108m interim pre-tax profits, let alone the £1.1bn of 1996, current trading must be dire. With pessimists slashing 2000 forecasts from a £100m profit to a £200m loss, it can be little surprise British Steel's shares fell 7 per cent. The company has underperformed the market by 50 per cent since the start of 1996, and now yields more than its historic p/e ratio. Could any of this have been avoided? Not much, in truth. The explanation lies mainly in a longstanding global oversupply of steel, dramatically worsened by a drop in south-east Asian demand. And the worst may be yet to come. The 18 per cent fall in average revenue per tonne British Steel stomached in North America may spread to Europe, where prices have so far held firm. Also beyond management control has been the impact of the pound.



As the pace of job cuts attests, British Steel is valiantly attempting to counter the adverse operating environment. But costs would surely come down faster if it participated more aggressively in the sector's consolidation. Be bold, Sir Brian, take advantage of depressed prices to snap up a bargain or two.

Takeover Code

The Takeover Panel resembles a football referee, delivering swift judgments in the heat of acrimonious battles. This works because those subject to its code reckon that justice is done. Great Universal Stores, though, which won its bid for Argos, feels hard done by. The company alleges a misleading impression was allowed to linger concerning Argos's Dutch stores. Argos says its statements were accurate. Clearly, it is important that investors get accurate information. GUS can always pursue the matter in court. But by banging on about how the panel should censure Argos's directors – after missing the deadline for an appeal – GUS is in danger of looking like a poor winner. It is up to the panel to apply common sense. The Dutch stores were a tiny part of the Argos empire. The panel may feel that if there is a case for rebuke, it should be a mere slap on the wrist.

'Bid for' Beeson Gregory

By Charles Pretzlik

Beeson Gregory, the stockbroking and corporate finance house specialising in smaller companies, is considering several takeover approaches, it emerged yesterday.

Andrew Beeson, chief executive, said: "We have had quite a number of approaches and we are having a think about it." The management has sought independent advice.

The approaches are believed to have come from rival firms in continental Europe who are seeking to expand in London.

Analysts last night suggested Beeson Gregory, which is privately-owned, might fetch between £35m-£40m ($57m-$65m) if it agreed to a takeover.

The business is 50 per cent owned by five institutions and the management own the other half.

The institutions, who each hold 10 per cent stakes, are 3i, Scottish Life, Hambrecht and Quist, Gresham Trust and a division of First Union Bank of the US. The management have pre-emption rights on any shares being sold by the institutions.

In the year ended June 30 Beeson Gregory's pre-tax profit jumped 74 per cent to £3.38m on turnover of £12.8m, an increase of almost half.

Beeson Gregory provides corporate finance advice to corporate clients and research and dealing services to institutional clients. It also deals in securities as a market-maker and principal.

Its successes have included advising Cliveden, the hotel company, on its takeover by an American consortium which included Bill Gates, chairman of Microsoft.

The latest balance sheet for the business shows that at the year end it had fixed assets of £609,000 but current assets of £26.2m. The firm employs 72 people.

Dixons internet service signs up 475,000

By Alan Cane

Dixons, which launched the UK's first free internet service eight weeks ago, is claiming a spectacular success which could have profound implications for the future of the UK internet market.

It says it has 475,000 customers for "Freeserve" – only 25,000 behind the UK market leader AOL, which has been operating in the UK for more than five years, and ahead of Compuserve which has 400,000 customers.

The largest high street electronic retailer says customers have been joining at a rate of 8,500 a day, 10 times faster than any other UK service provider, since the service was launched on September 22.

Mark Danby, Freeserve general manager, said more than 40 per cent of his customers were new to the internet. "Not only is Freeserve attracting a huge number of users, but we are also growing the UK internet market," he added.

If Dixons' numbers are accurate, the UK's 250 or so internet service providers will have to reassess their key business assumptions. In the US, where the internet market is most advanced, customers typically pay a high subscription fee but calls to the network are free. In the UK, subscriptions are moderate – between £7.50 and £15 a month – but customers pay local call charges.

Dixons is pioneering a new model. Freeserve charges no subscription but aims to profit from offering advertising on its website and by levying commissions on transactions carried out over the internet. Its success thus depends on the UK growth of electronic commerce.

Customers join the service using a free CD available from Dixons, Currys, PC World or The Link stores and by dialling into the network. The service is offered in conjunction with Energis, the alternative telecoms carrier in which the National Grid has a majority stake, and Planet Online, an internet service provider Energis bought in the summer.

British Telecommunications said it questioned the accuracy of Dixons' numbers. Its "pay-as-you-go" service, BT Click, attracted some 25,000 subscribers in six months.

Sir Brian hopes cliff isn't a black hole

The chairman of British Steel is having to cope with some of the most rapid price-falls in recorded history, writes **Kevin Brown**

Sir Brian Moffat, the famously gloomy chairman and chief executive of British Steel, was in more than usually dismal mood as he released first half results yesterday.

The company was being battered, he said, by the most rapid fall in prices since he joined British Steel in 1968. It sounds like hyperbole. Unfortunately for the company, it isn't. After recovering from a low in 1996-97, continental European prices for most steel products have fallen off a cliff since mid-summer, with no sign of a recovery.

Analysts say that Sir Brian may even have been underestimating the problem when he spoke yesterday of a 30 per cent price fall in the past three months – with up to 15 per cent in the last few weeks.

"Steel prices are probably falling faster than at any time in recorded history. We really are staring at a black hole at the moment, and there is no sign of good news," said Terry Sinclair, steel analyst at Salomon Smith Barney in London.

The group is suffering from three main problems:

● The Asian economic crisis has seriously distorted steel trade flows, which were already under strain because of increasing exports from the former Soviet Union, where demand plummeted after the communist regime collapsed.

US steelmakers are demanding government action to stop "dumping" by South American, Asian and East European producers, which they say has mushroomed to more than 50 per cent of the market. If they are successful, more exports will be diverted to Europe.

Eurofer, the European Union steelmakers' association, is about to file similar demands, claiming that imports were up by nearly 75 per cent in the first six months of 1998 – when the EU became a net importer of steel for the first time. Some analysts say that prices for benchmark products such as hot rolled coil steel could fall by up to 35 per cent in D-Mark terms.

● The strength of sterling has exacerbated the effect of the import surge on prices. British Steel says it will begin to feel the benefits of the pound's recent decline from a peak of about DM3.10 to about DM2.80 by the end of the year. But it says sterling needs to fall another 20 or 30 pfennigs before it becomes truly competitive.

Sir Brian called yesterday for further cuts in interest rates to bring the pound down and stimulate economic activity in the UK, where the company says order books have been flat for nine months. UK demand for British Steel's main carbon and engineering steel products rose slightly in the first half to 6.1m tonnes, but the import surge cut its market share from 57 to 54 per cent.

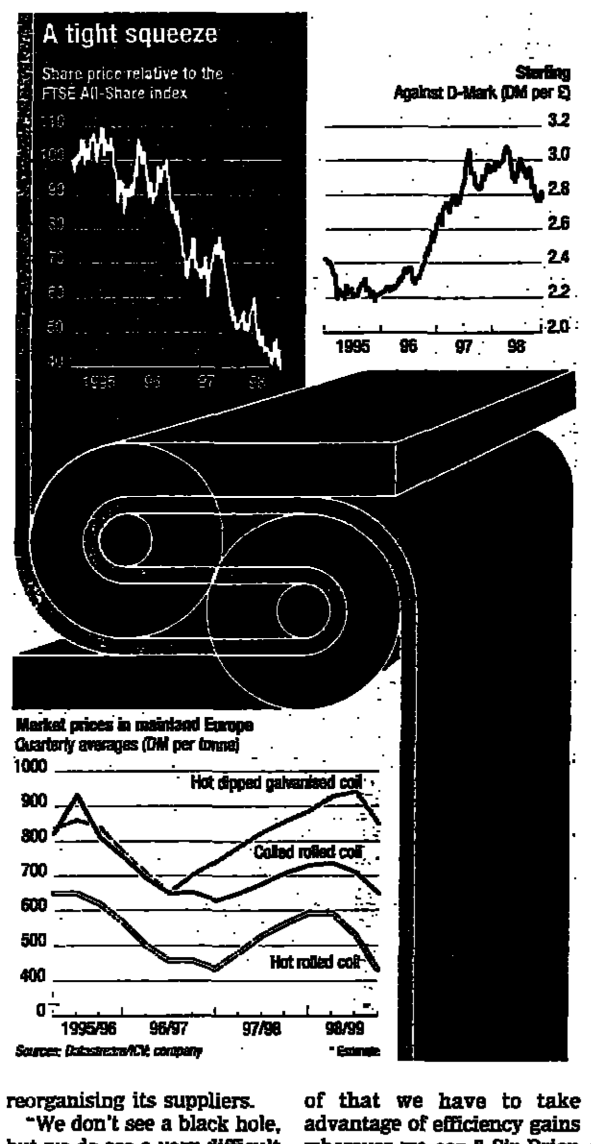
● Avesta Sheffield, the Yorkshire-based stainless steel producer which is 51 per cent owned by British Steel and 49 per cent by Avesta of Sweden, is haemorrhaging badly. Stainless steel products have been hit harder than most by the collapse in prices, and Avesta Sheffield is regarded by most observers as a relatively inefficient producer.

British Steel has been working hard to cut costs at Avesta, which accounted for £22m ($37m) of total restructuring costs of £30m in the first half. However, analysts say there is some way to go.

Analysts forecast that losses this year at British Steel are inevitable. But most expect it to recover next year and return to substantial profits in 2000-01, reflecting a recovery in prices and efficiency improvements. Paribas, the Paris-based broker, said in its most recent European steel report that the company was at the forefront of industry cost-cutting, and should achieve savings of £900m over five years.

At least 3,000 jobs are expected to go over the year, cutting the workforce to about 45,500. The main steel union, the Iron and Steel Trades Confederation, is co-operating in the restructuring programme, and the company is also aggressively reorganising its suppliers.

"We don't see a black hole, but we do see a very difficult period ahead, and as a result of that we have to take advantage of efficiency gains wherever we can," Sir Brian said.



Compensation for Randgold founder

By Kenneth Gooding

Peter Flack, founding chairman of Randgold Resources, the mining and exploration company that listed in London in July last year, has been paid $949,375 compensation for loss of office.

Mr Flack left Randgold suddenly in March after just over three years as chairman, saying he had achieved the objectives he had set himself. There was widespread speculation, however, over a split between Mr Flack and the Kebble family, majority shareholders in Randgold & Exploration, the company's South African parent group.

Roger Kebble, head of the family, succeeded Mr Flack as Resources' chairman.

There were reports that Mr Kebble's son, Brett, had plans to split Randgold and inject some of its African assets into JCI, the mining house in which the family also has a big stake.

Yesterday Roger Kebble denied that Resources would be split up. It would continue as a separate, focused African mining and exploration company, he said. However, changes to other South African mining companies in which the family had shareholdings would take place.

Mr Kebble expected that within a year JCI would merge with Consolidated African Mines to form an operating group with substantial shareholdings in Western Areas, Durban Deep and Randfontein, as well as Randgold Resources.

Mark Bristow, Resources' managing director, said yesterday that the $60m revamp of the Syama mine in Mali was virtually completed and the mine was now generating positive cash flow. Syama would be producing an annual 270,000 ounces of gold at cash operating costs of $210 an ounce from the beginning of next year.

Syama's positive cash flow, and the funds raised from a $34.6m open offer, would enable Resources to press on with the Morila gold project in Mali.

Nomura seals $229m brewer deal

By David Blackwell

Marston Thompson & Evershed, the Burtonbased brewer of Pedigree bitter, yesterday disposed of its tenanted pubs in an innovative securitisation deal with Nomura International, the Japanese investment bank, that will net it more than £137m ($229m).

Nomura said the deal marked the re-emergence of the lower-rated fixed rate Euromarkets following their collapse in the wake of the Russian default on Government bonds in August. It was also the first deal in which the bank was acting as an agent for the client, rather than as principal.

The Japanese bank is already the largest independent landlord in the UK with more than 4,000 pubs under its control, mainly in Inntrepreneur. After acquiring the pubs as assets, it securitised them by issuing bonds on the European capital markets backed by the cashflow generated by the pubs. Marston is selling 569 of its tenanted pubs to a new company, Premier Pub Company, which will finance the purchase through a securitisation arranged by Nomura. The tenanted estate being sold made operating profits in the year to March 28 of £15.8m on sales of £43.1m.

Nick Letchet, Marston's chief executive, said the disposal would realise much more through securitisation than would have been achieved in a trade sale.

Marston shareholders will be asked to approve the securitisation deal at an extraordinary meeting on December 9. The board pledged to return at least £60m of the proceeds to shareholders, and to pay a special dividend next year.

Mr Letchet said the group was in effect mortgaging the estate, which would revert to the Premier Pub Company once the bonds were paid back in 28 years. Marston has retained a 51 per cent stake in Premier.

Nomura, which usually securitises the cashflow of assets it already owns, said all three tranches of the bonds in Premier had been fully subscribed. The bank was fully underwriting the issues, giving a vote of confidence in both the sector and the company. Customers included long-dated insurance companies, pension funds and money managers.

The bank was looking across a wide range of sectors for similar agency deals.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adam & Harvey	6 mths to Sept 30	13.56	(22.51)	1.52	(2.48)	18.8	(32.8)	8‡	Jan 5	13.5‡	-	27‡
App'd Holographics	6 mths to Sept 30★	7.45	(5.32)	0.966	(0.055)	3.7	(0.21)	-	-	-	-	-
Beaufortφ	6 mths to Sept 30	2.02	(1.84)	0.22	(0.1)	0.0714	(0.0295)	-	-	-	-	0.068
Berisford	Yr to Sept 26	591	(550)	50.2	(60.4♥)	30.8	(37.3)	6.3‡	Jan 27	4.5	9.5	6.5
British Steel	6 mths to Oct 3☆	3,472	(3,509)	108	(143)	3.99	(4.75)	3	Jan 11◆	3	-	10
Cropper (James)	6 mths to Sept 26	25.1	(27)	0.88	(1.47)	5	(11)	1.4	Jan 8	1.4	-	5
Emap	6 mths to Sept 30	410	(376)	66.4♥	(47.4)	21	(12.2)	5.7	Jan 8	4.95	-	15
GB Railwaysφ	6 mths to Sept 30	43.3	(43.8)	0.977	(2.13)	7.7	(15.5)	1.5	Jan 25	-	-	5
Marston Thomps	6 mths to Sept 26	115	(107)	14.7♠	(15.8)	11.72	(12.71)	3.3	Dec 30	3	-	8.9
Pillar Property	6 mths to Sept 30	51.4	(31.9)	10	(6.85)	4.9†	(3.4)	2	Jan 6	1.8	-	5.8
Renold	6 mths to Oct 3	86.5	(92.7)	8.5	(11)	8.9	(13)	3.1‡	Jan 29	3.1	-	9
Sidlaw	Yr to Sept 30	154.5	(157.7)	7.07♠	(21♥)	9.8	(26.9)	1.5	Apr 7	1.25	2.75	2.25
600 Group	6 mths to Sept 30	58.9	(65.4)	3.89	(3.78)	5.6	(5.1)	1.5‡	Jan 11	1.5	-	5.5
TAb S	9 mths to Sept 30	3.48	(1.22)	10.4L	(13L)	0.45L	(0.57L)	-	-	-	-	-
Unigate	6 mths to Sept 30	1,122	(1,175)	67.5♠	(67.4♥)	21.7	(21.3)	7.9	Jan 5	7.5	-	22
Wardle Storeys	Yr to Aug 31	117	(113)	15.8♥	(12.5)	47.5	(32.6)	15	Jan 6	14	22	20.5
Workspace	6 mths to Sept 30	10.9	(9.76)	3.3	(2.51)	15.2	(12.5)	5.5	Feb 1	5	-	17

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
For & Col Euro	Yr to Sept 30	407.81	(400.78)	2.19	(1.09)	3.3●	(1.75)	0.4	Dec 18	1.6‡	2‡‡	1.6‡

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ★Comparatives restated. $US dollars. φAim stock. ¤Norwegian currency. ‡Foreign income dividend. ‡‡Foreign income dividend element. ☆Comparatives to Sept 27 1997. ◆Dividend for ADR holders to be paid on Jan 21. ●Includes 1.07p special dividend.

FINANCIAL TIMES SURVEY

NORTH AMERICA: BUSINESS LOCATIONS

TUESDAY NOVEMBER 17 1998

Investment eases as belts are tightened

Economic expansion has drawn heavily on the labour pool, making it difficult for new employers to find skilled workers, says Richard Waters

From Interstate 85, as it slices through South Carolina, the impact of a decade of heavy foreign investment is readily apparent.

In common with other parts of the south-east, the area still looks to its shrinking textile industry for a fair number of jobs. The largest private sector employers in the area are all mills, a reminder of the region's economic past.

But its future lies more in the new manufacturing plants that have sprouted along the sides of the freeway, many of them built by foreign companies. One in 10 manufacturing jobs in the area are now said to be for German companies such as Hoechst, BMW and Siemens.

The foreign direct investment boom of the 1990s, and a surge in capital spending by US companies, has created pockets of activity like this across the country, with the faster-growing south-east and south-west the biggest beneficiaries.

The North American Free Trade Agreement may have made it easier for low-wage jobs to flow to Mexico, but the long expansion of the 1990s has created more than enough employment to fill the vacuum.

The conditions that supported this wave of investment may be less potent than they were, though. One result is that US states and cities are likely to have to fight harder to attract new investment, putting companies in a stronger position to negotiate terms before agreeing to put down roots.

The dollar, despite some weakening lately, has been on a roll, making life tougher for US-based producers. According to the Bureau of Economic Analysis, the strength of the US currency is probably a large part of the reason foreigners spent less on establishing businesses in the US last year than the year before, the first time foreign investment has fallen since 1992.

Meanwhile, worldwide overcapacity in a number of industries has produced a glut of cheap imports that is putting US plants under pressure to keep raising the productivity bar.

And a long economic expansion has drawn heavily on the country's labour pool, making it increasingly difficult for new employers to find skilled workers.

The effects of overcapacity can be seen in some high-profile industries. Virginia, for instance, has seen its attempt to foster a local high-tech industry sidetracked by Motorola's decision to suspend construction on a new chip plant.

"There is nothing unusual about this," says Wayne Sterling, head of economic development in Virginia. The semiconductor industry may have hit a cyclical downturn, he says, but new projects are still in plentiful supply in industries which are expanding, such as telecommunications and financial services.

Mr Sterling concedes, though, that the overall investment picture is not as bright as it was. There are fewer companies shopping investment projects around in search of the state that will give them the most favourable welcome.

Also, the concerns that have swept through the international financial markets have had an impact. It has become more difficult to find the finance for new projects, particularly for foreign companies wanting to invest.

Many US companies have started to tighten their belts to prepare for what they believe will be more difficult economic times ahead. According to a recent survey of chief executives, undertaken by the Business Council, two-thirds of large companies have already reduced their capital spending plans.

The retrenchment is mirrored by the investment slowdown from abroad. But the 11 per cent drop in foreign investment last year should be kept in perspective. In the previous four years spending increased by nearly 50 per cent a year.

Besides the strength of the dollar, a big reduction in investment by Japanese companies accounts for much of the recent decline. Both Canada and Mexico experienced a similar pattern. While foreign investment eased, it remained high by historical standards.

The regional pattern of the slowdown in the US is in many ways a mirror image of the expansion that preceded it, says Regional Financial Associates, an economic consulting firm.

California and Texas, the two most populous US states and among the most successful in creating new jobs since the mid-1990s, have been among those to see biggest declines. The same is true of the south-east.

Some of the US cities that witnessed the quickest expansion have seen their growth rates slow most noticeably, particularly those whose expansion owed much to high-tech industry.

Job growth in San Jose has fallen from 6 to 2.5 per cent, though that may owe at least something to the great difficulty of finding office space and housing in Silicon Valley.

Despite this, the US economic expansion of the 1990s has to all appearances created fewer of the excesses from the 1980s that exacerbated the effects of the last recession in some regions.

That is particularly true in the real estate markets. Though cities such as Atlanta have attracted a wave of new construction, it does not bear comparison with a decade ago.

The expansion of the 1990s, meanwhile, has continued to draw workers from the mid-west and east, creating bigger markets that have, in turn, made them more attractive places to establish business.

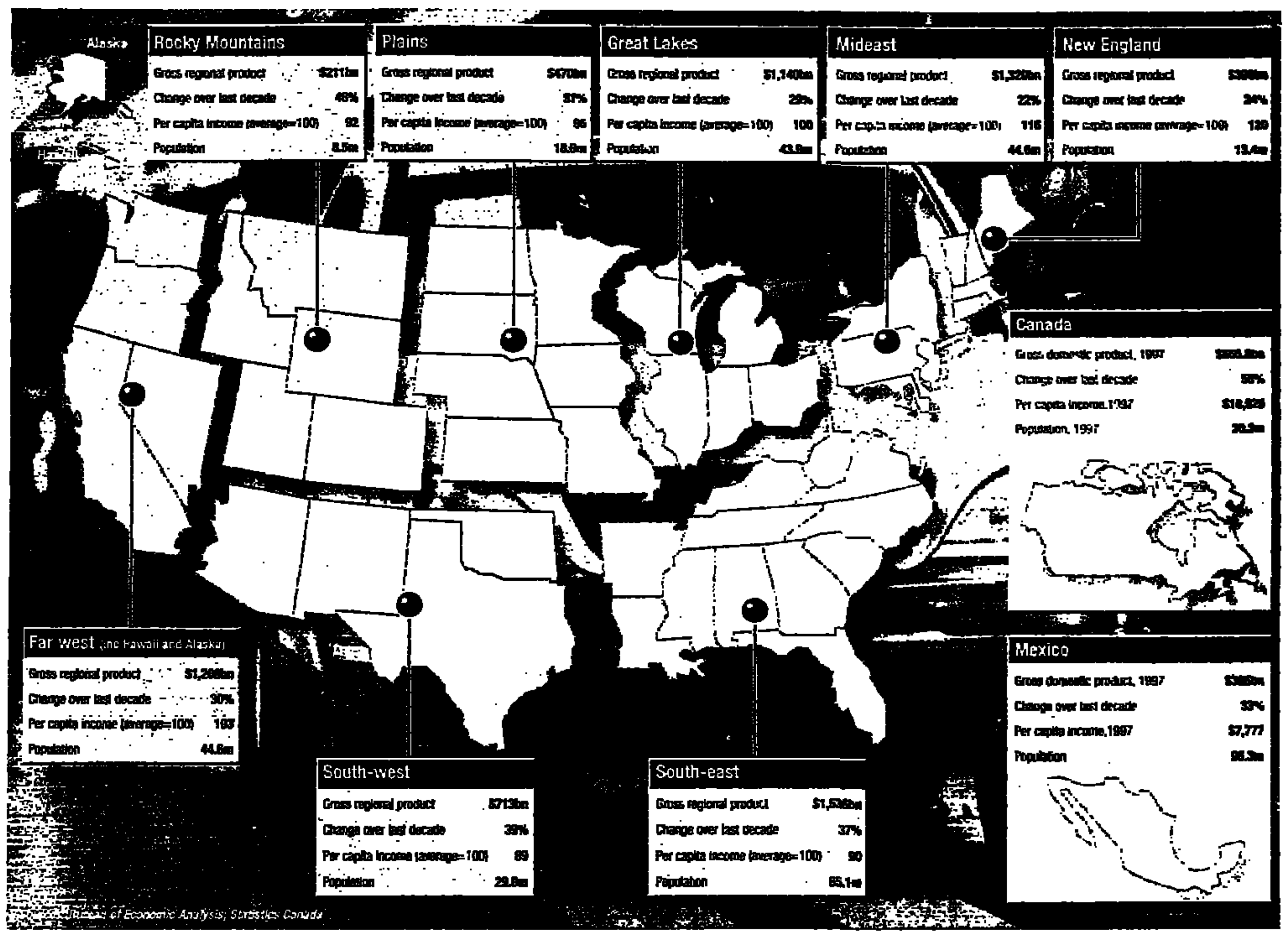
Growth rates in the west over the past decade have put it well ahead of most other parts of the nation. The economy of the south-west has grown nearly 40 per cent over the past decade, while the economy of the Rocky Mountain states, while far smaller, is up by 46 per cent.

North-eastern states, in contrast, have grown little more than 20 per cent.

Some factors which made the south-west and south-east such attractive sites for new investment are less clear-cut than they were. The relatively low cost of labour is not what it was.

Personal incomes in both regions, for instance, has risen to around 90 per cent of the national average, eroding much of the cost advantage that has attracted outsiders in the past.

But, with fast-growing regional economies, a generally more pro-business environment and more space available for development, both are also likely to be continued beneficiaries of new investment.



Sparkling new car factories, such as BMW's plant in Greer South Carolina, tell only part of the economic story AP

THE SOUTH by **Richard Wolffe**

Brainpower is in demand

The mood of the region is captured by retailers increasingly concerned that the boom times may be ending

The image of the booming new south has become a familiar picture of success for businesses seeking to relocate in the US.

Its reputation as an engine of growth is well earned. By the mid-1990s, according to the US Bureau of Economic Analysis, the south was winning around 40 per cent of foreign investment into the US compared to just 15 per cent in the north-east and 25 per cent in the west.

But the booming image has lost some of its lustre in recent months as the economy has begun to slow across the southern region, led by a downturn in manufacturing fortunes.

According to this month's beige book of economic analysis by the Federal Reserve, the pace of business activity weakened in the Atlanta and Richmond regions, where the manufacturing sector felt the impact of the faltering international economy.

Manufacturers, while hopeful about their prospects, voiced their first significant fears about their markets. Paper producers and oil companies reported cutbacks and little hope of improvement.

In Tennessee, furniture and textile producers said their expectations were poor, while in Alabama steelmakers admitted that increasing imports were leading to fears of layoffs and reports of rising inventories.

However, the downbeat reports were offset by strong sales in the retail and tourism sectors, which have proved a substantial boost to the region. While there are fears that overseas tourists may stay at home, strong booking levels suggest more reasons to be optimistic.

Businesses such as retailers appear to be increasingly concerned that the boom times may be coming to an end, even if concrete evidence of a fall-off in activity is hard to find.

The gloom may be overdone. Regional economists predict growth rates in the last quarter of this year will reach an average 3.7 per cent across the region, compared with 2.8 per cent for the US as a whole.

Some states such as South Carolina are expected to grow by 4.2 per cent, while others such as Alabama may merely reach a respectable 2.7 per cent.

South Carolina's encouraging prospects rely on the new leisure sector of hotels and restaurants around Myrtle Beach as well as the back-office operations of Charleston.

Tourism is also the bedrock of the region's largest economy, Florida, which is forecast to grow by 3.9 per cent according to the *Southeast Journal*.

But it is in the longer-term that the outlook becomes more uncertain for the region. In particular, the south has enjoyed rapid growth because it has been catching up with its northern rivals, particularly in terms of wages.

For instance, in 1970 personal income in the south represented just 83 per cent of the US average, according to MDC economic research in North Carolina. By 1995 that figure had risen to 90 per cent.

While that is undoubtedly positive for the region's workforce, it also undermines one of its key selling points – comparatively low cost labour.

Moreover, the cost of living in the region has shifted upwards as the south has left behind its largely rural roots to move to gleaming new urban centres, such as Atlanta and Houston.

Seven out of 10 southerners now live in metropolitan areas, while only four states – Arkansas, Kentucky, Mississippi and West Virginia – have more people living in rural areas rather than in urban ones.

Of course there is still much evidence of the old south in terms of low wages. More than 7m southerners working full-time earned less than $12,500 a year, the official poverty line for a family of three.

But the combination of problems of the old and new south converges on one issue, the need to raise educational standards to push up the quality of jobs which the region can attract.

Partly because of its historically low tax base, the south's education system has a reputation for severe underfunding. The Southern Regional Education Board says the south educates one-third of the country's children with one-sixth of the school funding.

In college standards the south is now further behind the rest of the US than it was in 1976, says MDC, despite undoubted improvements. The percentage of southerners with a university degree rose from 15 to 23 per cent between 1976 and 1997, while the national rate rose from 16 to 26 per cent.

For the influential Commission on the Future of the South, made up of the great and good among the business and academic leaders of the region, there is no higher target than raising school standards.

The commission tells the story of how a high-tech tool company from Michigan wanted to relocate to Shelbyville, Tennessee, but asked the region's chamber of commerce the unexpected question: "Can your high school graduates perform calculus?"

For many business leaders the higher demands of investors are pushing forward a policy agenda which will build both economic and social advantages for the long-term future of the south.

Michael Hooker, chancellor of the University of North Carolina at Chapel Hill and a leader of the commission, says: "In the 21st century, the only competitive advantage available to the south or to any region in the global economy is brainpower.

"We will be successful only to the extent that we unstintingly cultivate, develop and wisely deploy our intellectual capital."

PROFILE
ALABAMA AND SOUTH CAROLINA

Vision remains more of a blueprint than a reality

The sparkling new car factories built by BMW in Spartanburg and Mercedes-Benz in Tuscaloosa may be the flagship foreign investments of the new economies of the south-eastern states. But the enticing image of highly-skilled workers producing high-class products tells only part of the story.

For the economic strategists of the south-east the region is far from where it needs to be to compete successfully in the global economy. Indeed, under pressure from low-wage countries in the North American Free Trade Agreement, the south has been losing thousands of jobs in traditional sectors such as textiles and apparel.

In states such as Alabama and South Carolina government officials and business leaders have been rapidly outlining economic strategies to attract higher-skilled, higher-paid jobs in technology-based industries.

However, their political and economic vision remains more of a blueprint than a practical reality despite pockets of success around a handful of international investors. For Keivan Deravi, professor of economics at Auburn University in Montgomery, Alabama, those structural changes need to happen sooner rather than later.

"We are at the crossroads," he says. "The north-eastern states decided in the 1960s to give up their low-tech manufacturing and concentrate their efforts on higher-skilled manufacturing. We in the south inherited what the north-east and the mid-west rejected – these low-tech and low-skilled industries.

"What we have to offer the rest of the world and the rest of the nation is a cheap and non-unionised labour force with low skills and a very relaxed legal and labour environment. So what we got is the type of industries in direct competition with Singapore and Indonesia.

"We do not have the infrastructure to have a high-tech industry, but we do have reasons to have one here – not because of the scenery but because the customers are here."

Following the financial crisis around the Pacific Rim, further traditional industries such as timber and steel are suffering fierce new competition from Asian imports. The overall result is not just a loss of jobs but a contraction in the workforce.

In Alabama alone the overall workforce has shrunk by 32,000 to 2.14m this year, while the unemployment rate has fallen from 5.2 to 4 per cent. Employers with a growing workforce have found it hard to recruit new employees and hold on to existing skilled workers.

The solution for economic development strategists is to attract more high-tech companies to existing areas of success. In particular, the south-eastern states are keen to improve the skills of their workforce by raising educational standards which have lagged the rest of the country.

In South Carolina, where low-cost manufacturers have particularly suffered from recent Asian competition, the state government last month formed a grand technology alliance to help recruit high-tech investors.

With a 13-member board of university heads and business leaders, the alliance will target employers in electronics, software, telecommunications and technology-based engineering.

In particular, the state wants to adapt its network of "special schools" to help train workers for high-tech employers, as well as develop venture capital funds for start-up businesses.

At its launch outgoing governor David Beasley said: "This we know, high tech equals high wages. Both go hand-in-hand to form companies that are better equipped to adapt to competitive markets and economic fluctuations.

"With nearly 127,000 people in South Carolina already employed in technology-intensive industries, we must prepare our labour force for the skills those businesses demand and recruit them aggressively."

For the South Carolina chamber of commerce the high-tech vision has some foundation but is a long way from fruition. Hunter Howard, president and chief executive of the chamber, says: "We have some higher technology manufacturing such as chemicals and synthetic textiles, but that is a niche from an output standpoint.

"And there has been growth in pharmaceuticals, such as Roche. High-tech is our next horizon, and there is some foundation for it with three good research universities here. But, in terms of the economy as a whole, it has not taken off yet."

In Alabama focused policies centre around the existing medical research at the University of Alabama in Birmingham. There the university and business leaders are keen to start a home-grown cluster of biotechnology and medical-related companies.

David Day, interim director of the university's research foundation, says: "We are building one of the top three genetic centres in the country. We are telling the young faculty that we will let them have tenured jobs and not only allow them to run outside businesses but actively help them to do that."

Along with a 100-acre science and research park, the university has started a venture capital fund to invest in start-up biotech and medical businesses and aims to attract professional executives to manage the new companies.

For the Economic Development Partnership of Alabama, a private sector body which aims to attract foreign investors to the state, there is a clear model for building a cluster of high-tech companies. In the north of Alabama companies have boomed around the long-standing base for the Nasa space agency in the Huntsville area.

In both states there is a clear recognition that the starting point for attracting high-tech investors is the education system. Earlier this month both states elected new governors, replacing Republicans with Democrats, on a platform of improving educational standards, which have suffered partly because of historic racial divisions.

"Our education system needs to be improved an enormous amount," says Professor Deravi. "Unless we fix it and build an overall infrastructure in terms of the legal and business environment, we will only get a very selective number of high-tech industries based here."

Richard Wolffe

LABOUR MARKET by Nancy Dunne

Time to flex the muscles

The potential and growth of telecommuting is one of the few certain trends in a volatile employment market

After Linda Tripp became the world's most famous snitch for taping conversations with the former intern involved with President Bill Clinton, her job at the Pentagon was secure but not precisely comfortable. Her employers found her a telecommuting position which enabled her to work at home with a computer and a telephone. It gave her the flexibility to meet with lawyers and prosecutors and allowed her to avoid the hostility of her colleagues – while she continued to earn a living.

As a stay-at-home worker, Ms Tripp is not unusual. Telecommuting is a booming trend in private industry as well as in government. The federal government has increasingly encouraged telecommuting in order to save on office space. About 1.5 per cent of the government's employees work at home, a percentage that is due to rise to 15 per cent by 2002.

This kind of flexibility is increasingly important in the US job market – for government and private sector, for employers and employees alike. As the fortunes of the global economy wax and wane, managements want to provide job shares, home employment and to take on temporary workers. Some employees prefer the flexibility. For instance, parents are often glad of the opportunity to spend more time with their families.

However, desirable as the elasticity may be, there are also more ominous trends. In some areas there are skills shortages or mismatches, but mostly the increased rate of downsizing has produced an anxious work force willing to work harder and longer than they have in decades, often with fewer pay increases and promotions.

Downsizing may reach record levels this year, driven by the troubles in the global economy and mergers and acquisitions.

John Challenger, chief executive of Challenger, Gray and Christmas, a Chicago outplacement firm, says plans have been announced for the downsizing of more than 522,000 workers in the first 10 months of this year, compared with 434,000 in 1997. If this trend continues apace, there may be more cuts announced this year than ever before.

"Concerns about the shortage of workers has eased some," he said. "Job creation has been low for two consecutive months. But this is a self-correcting economy and a lot of companies are happy to see workers come onto the market."

Cost reduction has become the key to competing with cheap imports, and one of the easiest ways to keep costs in line is to get control over labour costs. This often means bad news for older, high cost workers with long tenures in a single company.

Meanwhile, the number of temporary and "leased" workers is rising, as a means of cutting costs. "Temps" do not get the health care and pension benefits given to full time employees, and they may be easily cast off when business is slow.

Some workers find advantages in temping. Jill Baker is a qualified reading teacher, but was unable to find permanent employment after the family moved to Paoli, Pennsylvania, when her husband got a better job. Temporary employment can often be interesting, she says, while at the same time she has the option of staying at home with her teenage son or helping to care for elderly parents.

On the flip side, both temporary and permanent employees report that they are working harder than ever. The New York Times recently reported that many so-called part-time workers – mostly women professionals – are being forced to work 35 to 40 hours a week.

Meanwhile, the average work week for professionals and managers has stretched from 45 hours two decades ago to 48, and it is not uncommon to find professionals and senior executives working 60-80 hours a week.

Overtime is by no means limited to professions. In many of the re-organised, re-engineered companies of today, many middle managers have been eliminated, and their former subordinates are required to fill the gap.

Fearing the loss of their own jobs, they are reluctant to complain about long work hours, even though studies have found that so much forced overtime is causing family problems, burnout and reduced effectiveness.

Tripp: now a telecommuter

Union workers have begun to strike, not for higher pay but for more time off. In the spring of 1994, steel workers at Allegheny Ludlum Corp struck after some workers were forced to spend as much as 146 hours in two weeks on the job.

It is in this time of increasing job stress that telecommuting has grown increasingly desirable. According to the American Management Association, in 1997, 51 per cent of US companies had launched some kind of telecommuting programme for its workers.

Telecommuting has been boosted in many states by concerns over traffic and air pollution and a desire to encourage a large segment of the work force stay off the highways.

The trend is a useful tool for foreign companies, interested in setting up in the US but unable or unwilling to invest in large headquarters or regional offices. Its potential and growth is one of the few certain trends in a job market made more volatile, but adaptable, in the global economy.

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CANADA by Edward Alden in Toronto

Falling behind in race to attract investment

Is the nation north of the 49th parallel suffering from a perception problem, or do its problems run deeper?

Canada's efforts to attract foreign investment have faced a paradox in recent years: by most accounts the country is among the cheaper and more attractive locations for business in the industrialised world.

Yet Canada finds itself falling behind in the race to attract more foreign investment. Since 1985, while Canada's FDI stock has doubled in dollar terms, the country's share of inward investment has fallen sharply.

Among the Group of Seven countries, for example, Canada's share of inward FDI stock is half of what it was in 1985. In North America, the share has dropped from 24 per cent to 16 per cent. Worldwide, Canada's share dropped from 9 per cent to just 4 per cent over the same period. While investment by US companies in Canada has risen steadily this decade, European and Japanese companies are increasingly looking elsewhere.

This relative decline is a source of considerable concern to Canadian federal and provincial governments, because Canada's economy relies more heavily than ever before on encouraging companies to establish global, or at least continental scale facilities in the country.

The free trade agreements concluded in the past decade with the US and Mexico mean that Canada can no longer rely on its historic policy of encouraging foreign companies to set up small branch plant operations behind tariff walls to serve the Canadian domestic market. Multinational companies are now able to locate in the US or Mexico and export to the Canadian market without facing high tariff barriers. Canada's challenge is to convince them to choose Canada as their platform for export to the rest of the North American Free Trade Agreement region.

In an effort to reverse this declining trend, Canadian governments have stepped up their campaign to promote Canada as an attractive place to do business. According to a 1997 study by KPMG Peat Marwick, UK accountants, Canada was the cheapest business location for manufacturing when compared with the US, the UK, France, Germany, Italy and Sweden.

The study looked at overall business costs, including initial investment costs such as land acquisition and construction, labour costs, transportation, electricity and telecommunications costs, the cost of capital and taxation. Canada fared well in virtually every category, excepting only road freight costs and capital taxes. Even a considerable rise in the Canadian dollar, from the current level of 65 cents US to nearly 80 cents, would not negate these advantages, the study found.

A similar KPMG study earlier this year found that, among big North American cities, Toronto was 25 to 50 per cent less costly as a business location than large American cities such as Atlanta, Dallas, Chicago, New York, San Francisco and Los Angeles. Other Canadian cities such as Montreal, Vancouver and Ottawa were even cheaper than Toronto.

And Canada's advantages are not limited to low costs; it also has a highly educated population, advanced infrastructure and attractive, safe cities in which to live.

So is Canada suffering from a perception problem by foreign investors, or are there solid reasons why more companies are not putting down roots north of the 49th parallel?

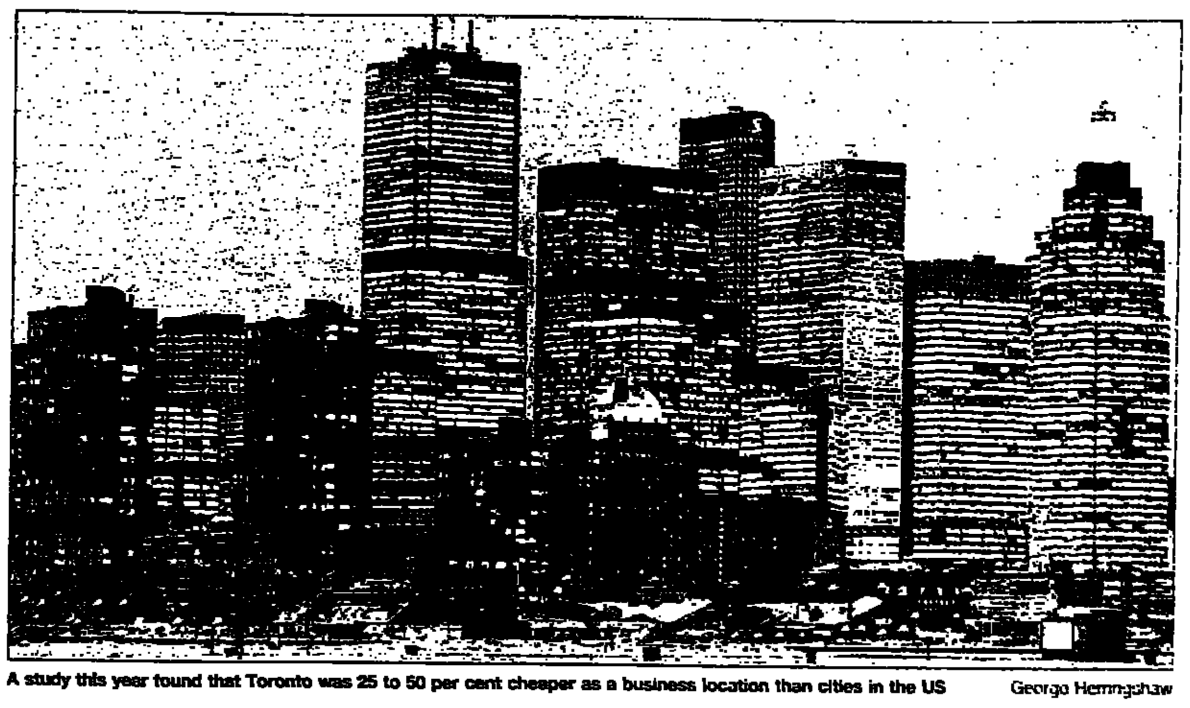
Someshwar Rao, director of strategic investment analysis for Industry Canada, the federal department, says the problem is a bit of both. In particular, he says, competing with the US for investment means that Canada "not only has to be competitive, we have to be number one because the US has some huge advantages in terms of technological infrastructure and the size of the market."

Among the real problems identified by economists have been Canada's low levels of productivity; relatively high personal and corporate taxation; the poor overall economic performance in the last decade relative to the US; and the instability of the Canadian dollar. And while Canada has increasingly embraced foreign investment, significant restrictions on foreign ownership remain in such dynamic industries as telecommunications and financial services.

The Canadian government hopes that most of these problems are on the verge of being resolved. Labour productivity, for instance, which has lagged behind the US over the last decade, showed a strong surge in 1997, rising 2.9 per cent compared to the 1.8 per cent gain recorded by the US.

The Canadian dollar, which suffered a sharp plunge against the US dollar this year, has likely bottomed out, making Canadian assets cheaper than they have been in a long time and offering the likelihood that any acquisition will appreciate in value.

Paul Martin, Canadian finance minister, has promised further reductions in personal income taxes in the next budget to be handed down in February. But corporate taxes are not on his immediate agenda. This is despite a detailed government-sponsored study this year that found Canada's marginal corporate tax rates are high compared to the US.



A study this year found that Toronto was 25 to 50 per cent cheaper as a business location than cities in the US George Hemingshaw

Despite these obstacles, there have been some bright spots in Canada's efforts to attract foreign companies. Quebec, for example, has wooed substantial new investments in the pharmaceutical and aerospace industries despite the continued political uncertainties created by the province's threat to separate from the rest of the country.

Quebec's generous write-offs for research and development expenses and its accelerated depreciation allowances have encouraged new investment from companies such as Astra, the Swedish pharmaceuticals company and Liebherr Aerospace, a subsidiary of the Swiss engineering company. In addition to the basic 20 per cent federal tax credit, Quebec offers a 20 per cent tax credit for salaries on R&D activities, increased to 40 per cent for research at a recognised research centre. In addition, foreign researchers who move to Quebec are eligible for a two-year tax break on personal income.

Research in Quebec has led to several breakthrough products, including Bombardier's unparalleled regional aircraft line, Biochem Pharma's Aids drug 3TC, and the animation and special effects software of Discreet Logic and Softimage, a Microsoft subsidiary.

Ontario also offers generous R&D tax breaks, which has encouraged large investments by Nortel Networks, a Canadian voice data networking company with substantial global operations, IBM Canada, Imperial Oil and General Motors of Canada.

Both Ontario and British Columbia, Canada's westernmost province, have also lured the US film production industry, a particularly mobile and cost-sensitive businesses.

But Canadian governments are hoping to do much better. Denis Gauthier, director-general of micro-economic policy analysis at Industry Canada, says the disjuncture between Canada's low costs and its difficulty in attracting business "provides a lot of rationale for really promoting Canada as a place for doing business."

Stuart MacKay, one of the authors of the KPMG study on Canada's business costs, said that in speaking tours of Europe recently he found a strong bias in favour of locating in the US. "When Europeans are looking at North America, because 90 per cent of the market is in the US, there's no consciousness that we are physically proximate to the major US markets," he says. "I hear it again and again: we're just not on the radar screen."

But changing those perceptions will be no easy task. Steven Globerman, a professor of economics at Simon Fraser University in Vancouver, says it will be almost impossible for Canada to break the US stranglehold on the critical, fast-growing high-technology industries – an advantage that is luring away many of the best-educated Canadians to higher-paying jobs south of the border.

"It's very unlikely, short of bankrupting yourself, that you can buy your way into having a vibrant sector in those areas simply through subsidies," he says.

Canada faces a genuine dilemma in North America. While it is a low-cost location, highly cost-sensitive businesses will opt for Mexico, which remains far cheaper. And while it has wealthy markets, an educated populace and advanced infrastructure, it cannot match the scale of opportunities offered by the US.

Canada is trying to find a middle way that will prove attractive to investors, but the ingredients are not quite yet in place.

J0B CREATION IN THE US by Christopher Parkes

Business as usual but the accent changes

Clothing manufacture, not an obvious winner in an advanced economy, is one of the fastest-growing businesses

The free-flow exodus from California of people and businesses driven by recession or fear of worse to come after the early-1990s round of earthquakes, riots and wildfires has come to a halt.

The population decline has been reversed in the past year and the state is, as before, welcoming all comers and open for business.

Yet, although the people are coming, driving the rate of population increase at twice the national average, the business base seems to be going in the opposite direction.

The continuing fall-out from the restructuring of the aerospace and defence industry has cost the state thousands of jobs and its flagship McDonnell Douglas.

Consolidation of the energy sector has exposed the state's three big oil groups as weakling takeover candidates. The compression of the financial services sector has seen most of the leading banks taken over.

The loss of corporate headquarters and jobs have all contributed to the impression of an eroding base yet, as with population, job creation in the state runs well ahead of national rates.

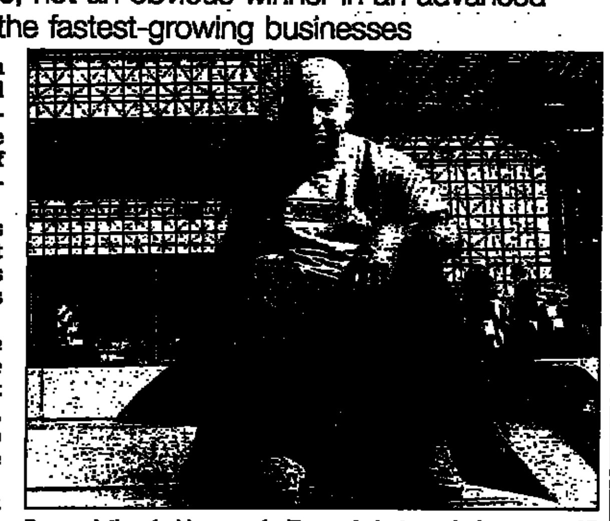
Silicon Valley and Los Angeles remain unrivalled powerhouses of the international high-tech and filmed entertainment industries and, despite recent slowing, continue to grow at underlying rates which reflect the sectors' importance to the global market.

But the fastest-growing group of employers comprises the small companies founded by new millionaires seeking their own way outside the computer and software industries which made them rich and the ambitious entrepreneurial newcomers, immigrants from the US and overseas, eager to exploit region's market.

Clothing manufacture, not an obvious winner in an advanced economy, is one of the fastest-growing businesses in southern California, drawing on vast reserves of cheap immigrant labour and selling into a fashion-hungry market.

But the state also has large reserves of skilled and highly educated workers feeding software and services suppliers ranging from electronic games to car design.

Although there is only one car assembly plant in the state, representing a much reduced automotive industry, more than a dozen car companies maintain design



Baggy clothes fashions are fuelling an industry revival AP

studios in Orange County.

Just as they are staffed largely with graduates from the renowned Pasadena arts college, the biotechnology industry clustered further south near San Diego and scattered throughout the state finds no shortage of graduates from California's renowned university system.

Abundant labour, skills and wealth make for a vibrant economy and an attractive market which, in terms of residents, is expected to equal that of France within 20 years.

But, if the marketing opportunities are all too obvious to outsiders looking to relocate, so too are the disadvantages. California's vaunted infrastructure is under stress from the forces of advancing age, neglect and demands which it was not designed to bear.

According to the California Business Roundtable, an industry lobbying group, a 10-year spending programme and a budget of about $115bn is needed to bring it up to scratch. Efforts to build a more business-friendly environment have focused recently on corporate tax reforms and the elimination of red tape.

They have neglected almost entirely the fundamental requirements of cities in which 60 per cent of the elementary schools, built with the light materials typical of the region, are more than 30 years old.

The Pasadena Freeway, the first stretch of the highway network which links the grid of towns comprising the Los Angeles sprawl, is 60.

Up to $25bn needs to be spent on roads merely to maintain existing levels of mobility, the round table said in its recent report *Building a Legacy for the Next Generation*.

And yet, when Governor Pete Wilson found himself this year with a $4bn budget surplus – more than Canada's – he fought and won a battle to dispense the bulk of it and future expected windfalls on a measure which would tend only to increase the numbers of cars on overloaded roads.

Mr Wilson's virtual elimination of vehicle licence taxes made his reputation as a tax cutter, enhancing his reputation in preparation for a possible run for the presidency. It also fed Californians' appetite for ever lower taxation, which has haunted more far-sighted politicians since property taxes were capped in 1978.

The impact of this radical step, which robbed local authorities of an important slice of their revenue, is now everywhere apparent in the deteriorating infrastructure.

To replace the lost revenue, many now encourage the development of retailing malls and car showroom lots which yield vital sales taxes. But such policies militate against the construction of industrial and commercial buildings, and even the homes which the state so desperately needs.

A small industrial company looking for premises in Los Angeles, for example, will find the vacancy rate is about 5 per cent, among the lowest in the country. But as local officials point out, even that scant supply is usually unusable because of age or lack of access for trucks.

A family looking for a home in Los Angeles will find prices more than 50 per cent higher than the national average.

Even in modernistic Silicon Valley, road, commercial and residential building capacity is close to exhaustion, and San Francisco has in the past year overtaken Hawaii, long unchallenged as the place with the highest cost of living in the US.

MEXICO by Henry Tricks in Mexico City

FDI bonanza loses some of its sparkle

The government is hoping that annual foreign direct investment levels of $9bn-$10bn will be boosted by the rise of export-oriented plants known as 'maquiladoras'

Reynosa is one of Mexico's leading 'maquiladoras'. Labour and housing shortages in border areas have become a serious constraint AP

The foreign direct investment bonanza enjoyed by Mexico in 1997 has lost some of its fizz this year but the government still expects a robust total of close to $10bn to arrive, in spite of upheaval in worl financial markets.

While the effects of global market turmoil drove the value of speculative investment in Mexican securities down 40 per cent in the first nine months of the year, foreign corporations have tried to keep their investment plans intact.

Helped by membership of the North American Free Trade Agreement (Nafta), Mexico has become the second-largest recipient of foreign direct investment in the emerging world after China.

Despite problems at home, Asian companies continue to use Mexico as a springboard to the US, as do European multinationals that are also eyeing the prospect of free trade talks starting in November between Mexico and the European Union.

The corporations praise just the sort of conditions speculative investors appear to have ignored in their flight to the door: tight fiscal action to offset a slump in government oil revenues, a competitive trade policy and a domestic economy that is expected to grow some 4.5 per cent this year.

Their investments are not of the magnitude seen last year, when Mexico attracted $11.7bn of foreign capital partly due to one-off corporate takeovers in the cigarette industry and consumer goods sector. But deregulation of natural gas distribution and power generation have attracted foreigners, and investors are also eyeing the up-coming privatisation of the nation's airports and a long-delayed scheme to permit 49 per cent private equity in undercapitalised state petrochemical plants as business opportunities.

"We are not fly-by-night investors," says Andres Davarsi, head of the Canadian Chamber of Commerce in Mexico. "The companies that have invested in Mexico are very satisfied with their investments."

That is not to say those who spend on plant and equipment rather than stocks and bonds are safe. Mexico's best year for foreign direct investment was in 1994, when it attracted $14bn as multinationals shrugged off a rebel uprising in the south-eastern state of Chiapas and the assassination of two leading politicians. The year, which began with the much-celebrated launch of Nafta, ended in a big devaluation and an economic crisis that it took two years to get over.

Economists warn that as Mexico becomes increasingly global in its export capacity, it is also increasingly exposed to global conditions that are now routinely described as at their most perilous in 50 years.

"The Asia phenomenon creates major surplus capacity in areas where Mexican exporters have been very aggressive," says Rogelio Ramirez de la O, a private economist. "As there is greater awareness of a global slowdown, Mexican reception of FDI will suffer."

Even some observers who say it is too early to predict a slump in FDI believe Mexico's ability to attract increasing amounts of capital may be constrained by politics ahead of presidential elections in 2000.

"We've hit a plateau of FDI at about $9bn-10bn a year," says Deborah Riner, chief economist at the American Chamber of Commerce. "I don't see dramatic structural changes in the rest of this administration."

To maintain that plateau, the Trade and Industry ministry is putting a lot of faith in the steady rise of export-oriented assembly plants that first sprung up along the US-Mexico border and are now spreading across the country. Known as *maquiladoras*, the plants import components duty-free and pay export taxes only on the value added. According to Herminio Blanco, the trade minister, they are being established at the rate of 50 a month, and by mid-1998 there were almost 2,900 in Mexico, double the number a decade ago, employing almost 1m people.

The growth of such industries has transformed Mexican exports. What Mr Blanco describes as "old Mexico" products – such as oil and steel – have been eclipsed by the sale of cars, car parts, electrical appliances and household goods. The growth has been so rapid that labour and housing shortages in border areas have become a serious constraint, and in 1997 two-thirds of new *maquiladoras* were set up in the interior of the country as owners sought a more abundant – and therefore cheaper – labour crop.

This year, a Japanese manufacturer of car harnesses opened the first *maquiladora* in Chiapas, Mexico's poorest state. Elsewhere, "clusters" of medium-sized suppliers have sprung up around large-scale manufacturers, turning Mexico into a smorgasbord of regional industries.

In Puebla, a state south of Mexico City, Mr Blanco says there are 70 suppliers, many from Europe, for Volkswagen's main Mexican plant located there. In Aguascalientes, a state in central Mexico, the establishment of a Nissan plant in 1981 acted as a similar magnet for Japanese companies. Now more than two-thirds of the $1.8bn of foreign direct investment comes from Japan.

Rule changes in the Nafta treaty in 2001 are expected to make life harder for those *maquiladoras* whose suppliers are based outside North America, but the Trade Ministry is determined not to let that be an impediment to fresh investment.

"*Maquiladoras* are among the best employers in Mexico and the government will do what it has to to maintain their competitiveness," says Jaime Zabludovsky, a deputy trade minister.

Ahead of trade negotiations with the European Union, Mexico has also signed investment treaties with seven European nations, granting their companies the right to take Mexico to an international tribunal if their investor rights are violated.

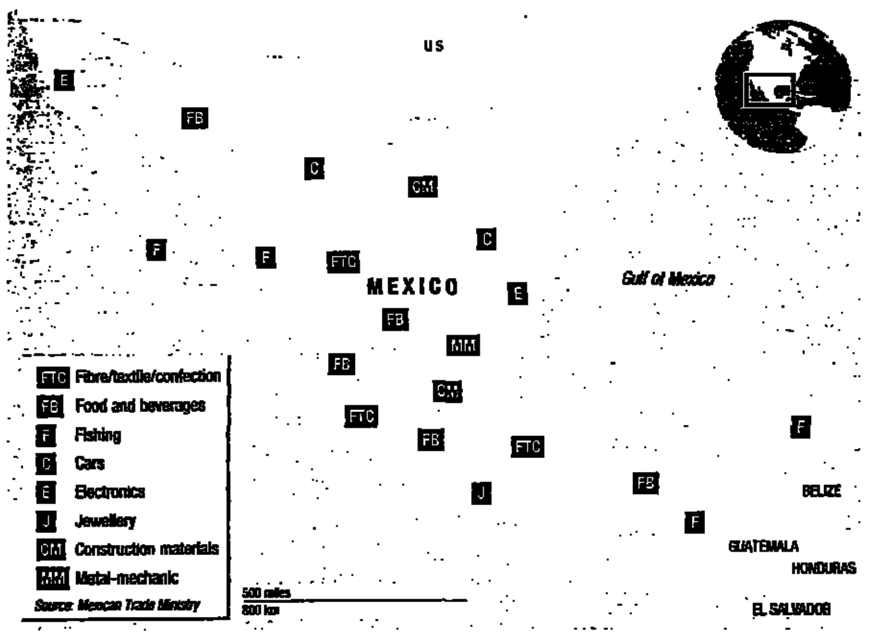
Some critics say the agreements give foreign investors more rights than Mexicans, who are denied access to the same courts. But Mr Zabludovsky defends the agreements on the grounds that they are reciprocal.

Deregulation in government ministries has cut the waiting time down to a matter of days for companies applying for a licence to open *maquiladoras*, and some state governments – increasingly aware of the importance of attracting foreign investment – offer to pay the wages of workers while they are in training.

Executives say red tape is still onerous, particularly in the energy sector that remains state dominated, and that complex tax laws – which can change every year – are an impediment to business planning.

Although Mexican wages are about a tenth of the equivalent level in the US, some 30 per cent of the Mexican workforce belongs to politically powerful unions, twice the level in the US. Government corruption is also considered a big handicap for local and foreign businesses.

The latest drawback is a soaring crime rate, which makes it difficult for foreign companies to attract managers to Mexico. On the other hand, the security companies specialising in anti-kidnap services, armoured cars and bodyguards are making a beeline for Mexico.



EURO PRICES

EQUITIES

Rate cut hopes stiffen Europe

EUROPEAN OVERVIEW

By Khozem Merchant

European stock markets ended higher yesterday, driven by a firmer Wall Street, where sentiment was encouraged by expectations of a cut in US interest rates when the Federal Reserve policy-making committee meets today. The receding prospect of hostilities in the Gulf also helped to drive prices.

The stronger close by European bourses, led by Germany, supported analysts' views that "European markets had fallen too far on valuation grounds", and, said Salomon Smith Barney, provided "scope for equities to recover ... as the market's abnormal perception of risk continues to abate".

Salomon said corporate earnings in continental Europe, having fallen in the three years to 1998, are still only 23 per cent up from the 1990 cyclical peak. Provided the European economy continues to grow at a trend rate for the next 2-3 years, there should still be room for significant growth in earnings, the bank said.

The FTSE Eurotop 300 index rose 15.3 points or 1.42 per cent to 1,093.19, while the narrower FTSE Eurotop 100 index performed slightly better, closing 37.11 points or 1.49 per cent higher at 2,522.89. The FTSE Ebloc 100 index of shares in countries in the first wave of monetary union rose 2.26 per cent to 909.46.

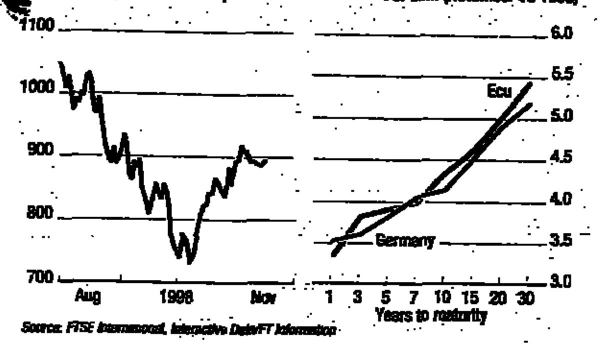
The automobile sector was one of the best, driven by the start of trading today of shares of DaimlerChrysler in Frankfurt and New York, following the merger of the US and German carmakers earlier this year.

Daimler shares rose Ecu 5.20 to Ecu 71.60 ahead of the new stock's appearance, and the rise helped other motors. BMW rose Ecu 18 to Ecu 564.07, Peugeot finished Ecu 2.30 higher at Ecu 133.23, and Volkswagen ended Ecu 2.90 higher at Ecu 66.74.

Weekend speculation of a merger between chemicals group Hoechst and pharmaceuticals company Rhône Poulenc, fuelled the price of both stocks. A merger would create one of the world's biggest chemcials groups. Hoechst rose Ecu 1.10 to Ecu 39.79, while Rhône Poulenc rose Ecu 1.30 to Ecu 40.14.

Hotel stocks took a battering, closing 2.42 per cent lower after Dresdner Kleinwort Benson cut its forecasts for Granada.

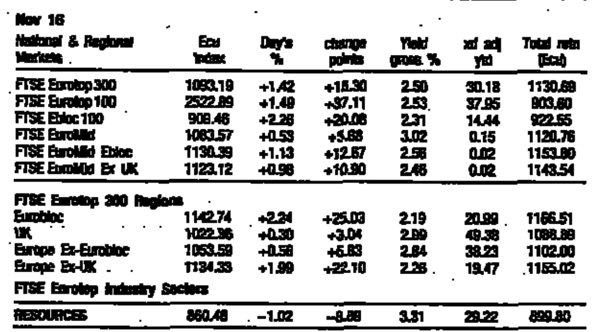
FTSE Ebloc 100



Source: FTSE International, Interactive Data/FT Information

Bond yield curve

Per cent (November 16 1998)



THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.340	96.340	+0.005	96.340	96.340	250	9812
Mar	-	96.530	-0.020	-	-	0	6012
Jun	-	96.550	-0.030	-	-	0	2282
Sep	-	96.545	-0.025	-	-	0	1307

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

[illegible]

FTSE Eurotop 100 index futures

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2531.0	2538.0	+44.0	2538.0	2518.0	187	7910
Mar	-	2546.5	+44.0	-	-	0	1080

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]

OTHER INDICES

	Nov 16	Nov 13	Oct 16	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DJ Euro Stx 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MSCI Europe	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Datastream of FT Information.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Nov 16 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1093.19	+1.42	+15.30	2.50	30.18	1130.69
FTSE Eurotop 100	2522.89	+1.49	+37.11	2.53	37.95	903.60
FTSE Ebloc 100	909.46	+2.26	+20.08	2.31	14.44	922.55
FTSE EuroMid	1063.57	+0.53	+5.68	3.02	0.15	1120.76
FTSE EuroMid Ebloc	1130.39	+1.13	+12.67	2.56	0.02	1153.80
FTSE EuroMid Ex UK	1123.12	+0.98	+10.90	2.46	0.02	1143.54
FTSE Eurotop 300 Regions						
Eurobloc	1142.74	+2.24	+25.03	2.19	20.99	1166.51
UK	1022.36	+0.30	+3.04	2.89	49.38	1088.89
Europe Ex-Eurobloc	1053.59	+0.58	+5.83	2.84	38.23	1102.00
Europe Ex-UK	1134.33	+1.99	+22.10	2.26	19.47	1155.02
FTSE Eurotop Industry Sectors						
RESOURCES	860.48	-1.02	-8.88	3.31	29.22	899.80
Extractive Industries	751.23	-1.22	-9.27	4.58	14.54	767.10
Oil, Integrated	832.46	-1.01	-8.52	3.25	21.73	852.62
GENERAL INDUSTRIES	990.86	+2.62	+25.31	2.75	20.31	1010.81
Construction	941.76	+1.52	+14.09	2.92	11.06	952.72
Building Matls & Merchs	879.66	+1.54	+13.38	2.54	8.96	887.26
Chemicals	840.83	+2.05	+16.89	2.86	17.45	855.68
Diversified Industrials	891.71	+1.90	+16.62	2.65	17.48	907.01
Electronic & Elect Equip	857.69	+2.36	+19.79	1.93	5.41	862.36
Engineering	819.36	+1.87	+15.07	4.00	11.68	829.34
Paper, Pckg & Printing	770.48	+0.71	+5.45	3.00	1.21	771.43
CONSUMER GOODS	1137.14	+1.13	+12.66	1.85	50.06	1202.60
Automobiles	819.59	+5.50	+42.76	2.77	10.25	827.19
Alcoholic Beverages	912.43	+2.62	+23.34	2.91	296.79	1359.26
Food Producers	966.49	+1.48	+14.08	1.57	11.84	977.85
Household Goods & Texts	939.22	+2.58	+23.60	2.01	7.88	945.25
Healthcare	905.88	+3.02	+26.59	1.29	13.51	919.43
Pharmaceuticals	997.99	+0.61	+6.03	1.29	5.27	1003.41
Tobacco	1254.90	+0.03	+0.36	4.01	15.88	1272.15
SERVICES	1111.31	+0.98	+10.79	2.12	22.71	1142.02
Distribution	760.76	-1.28	-9.86	2.85	11.37	769.31
Leisure & Hotels	693.97	-2.42	-17.20	3.56	12.27	703.05
Media	945.71	-0.53	-5.03	2.33	10.68	955.81
Retailers, Food	994.81	-0.64	-6.44	2.05	14.17	1009.20
Retailers, General	931.85	-0.27	-2.49	3.37	20.46	951.07
Telecommunications	1042.61	+2.20	+22.49	1.85	13.02	1065.29
Breweries, Pubs & Rests	748.16	-2.13	-16.27	3.56	16.00	761.40
Support Services	917.44	+2.68	+23.92	1.75	9.87	927.17
Transport	939.49	+1.48	+13.70	2.63	18.24	956.81
Information Technology	876.17	+2.59	+22.12	0.41	2.33	878.26
UTILITIES	1432.99	+0.20	+2.86	3.08	55.62	1513.15
Electricity	1075.72	+0.28	+3.01	3.26	28.23	1104.45
Gas Distribution	1164.82	+0.93	+10.78	1.59	93.32	1282.54
Water	1048.83	-1.82	-17.90	4.82	38.72	1088.88
FINANCIALS	1147.08	+2.02	+22.67	2.84	27.32	1177.76
Banks,Retail	787.03	+1.98	+15.25	3.70	12.96	797.60
Insurance	901.10	+2.14	+18.87	1.54	11.79	911.97
Life Insurance	1051.70	+2.23	+22.89	1.84	12.98	1065.35
Other Financial	823.62	+1.59	+12.90	2.34	15.85	837.38
Investment Companies	885.80	+1.53	+13.38	1.53	20.68	902.36
Property	707.52	-0.81	-5.74	3.46	16.01	720.52

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]					

Sectors listed: ALCOHOLIC BEVERAGES; AUTOMOBILES; BANKS RETAIL; BREWERIES, PUBS & RESTAURANTS; BUILDING MATERIALS & MERCHANTS; CHEMICALS; CONSTRUCTION; DISTRIBUTORS; DIVERSIFIED INDUSTRIALS; ELECTRICITY; ELECTRONIC & ELECTRICAL EQPT.; ENGINEERING; EXTRACTIVE INDUSTRIES; FOOD PRODUCERS; GAS DISTRIBUTION; HEALTH CARE; HOUSEHOLD GOODS & TEXTILES; INFORMATION TECHNOLOGY; INSURANCE; INVESTMENT COMPANIES; LEISURE & HOTELS; LIFE INSURANCE; MEDIA; OIL, INTEGRATED; OTHER FINANCIAL; PAPER, PACKAGING & PRINTING; PHARMACEUTICALS; PROPERTY; RETAILERS, FOOD; RETAILERS, GENERAL; SUPPORT SERVICES; TELECOMMUNICATIONS; TOBACCO; TRANSPORT; WATER.

CURRENCIES & MONEY

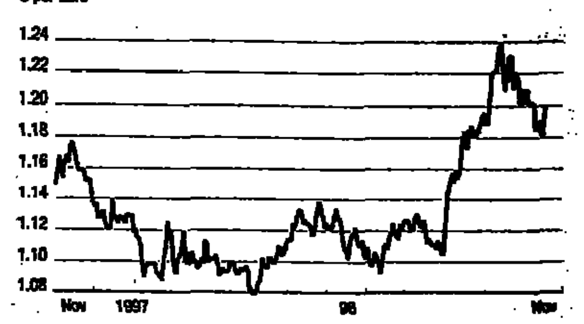
FT SYNTHETIC EURO RATES

Nov 16	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.050376	-0.0002	+0.00	-0.0038	-0.03
Belgium	BEF	41.204468	+0.0079	+0.02	-0.0016	+0.00
Czech Republic	CZK	35.537805	-0.0791	-0.20	+0.5345	+1.53
Denmark	DKK	7.591854	-0.0030	-0.04	-0.0016	-0.02
Finland	FIM	6.072636	-0.0003	+0.00	-0.0009	-0.02
France	FRF	6.697673	-0.0004	-0.01	+0.0012	+0.02
Germany	DEM	1.997081	-0.0000	+0.00	-0.0005	-0.02
Greece	GRD	336.159684	+0.4393	+0.13	-0.5205	-0.15
Hungary	HUF	258.896814	+1.1478	+0.45	+2.2850	+0.89
Ireland	IEP	0.803122	+0.0007	+0.09	+0.0004	+0.05
Italy	ITL	1975.983269	+0.1658	+0.01	-0.2714	-0.01
Luxembourg	LUF	41.204468	+0.0079	+0.02	-0.0016	+0.00
Netherlands	NLG	2.251808	-0.0003	-0.01	-0.0003	-0.01
Norway	NOK	8.930311	+0.0595	+0.67	+0.0960	+1.09
Poland	PLN	4.115654	+0.0161	+0.39	+0.0530	+1.31
Portugal	PTE	204.836169	-0.0117	-0.01	+0.0309	+0.02
Romania	ROL	11835.766167	+141.8771	+1.21	+142.2236	+1.22
Russia	RUB	22.495315	+0.9778	+4.54	+3.6146	+19.14
Slovakia	SKK	43.211973	-0.2764	-0.64	+0.5215	+1.22
Spain	ESP	169.874076	-0.0078	+0.00	+0.1549	+0.09
Sweden	SEK	9.673165	+0.0526	+0.55	+0.3165	+3.39
Switzerland	CHF	1.644105	-0.0013	-0.08	-0.0066	-0.40
United Kingdom	GBP	0.715177	+0.0053	+0.75	+0.0019	+0.26
ECU	ECU	1.015075	+0.0003	+0.03	-0.0008	-0.08
Americas						
Brazil	BRL	1.426281	+0.0187	+1.33	+0.0181	+1.29
Canada	CAD	1.864925	+0.0304	+1.66	+0.0492	+2.71
Mexico	MXN	11.946780	+0.1287	+1.09	+0.0827	+0.70
United States	USD	1.198153	+0.0159	+1.34	+0.0144	+1.22
Pacific/Middle East/Africa						
Australia	AUD	1.871395	+0.0222	+1.20	+0.0008	+0.05
Hong Kong	HKD	9.277535	+0.1225	+1.34	+0.1142	+1.25
Japan	JPY	143.528700	-0.9776	-0.68	-0.0613	-0.04
Singapore	SGD	1.951791	-0.0019	-0.10	-0.0074	-0.38
South Africa	ZAR	6.787894	-0.0047	-0.07	+0.1944	+2.95

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "In" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings are follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0365, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187

Synthetic Euro against the dollar

$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Nov 16	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rates v DEM
Austria	7.03552	7.0355	+0.00	+0.00	7.0354	3.57	-0.01
Belgium	20.6255	20.6323	+0.03	+0.01	20.6314	3.54	-0.04
France	3.35386	3.3537	+0.00	-0.05	3.3535	3.53	-0.05
Finland	3.04001	3.0409	+0.03	+0.02	3.041	3.61	+0.03
Ireland	0.402676	0.4022	-0.12	-0.21	0.4023	3.78	+0.20
Italy	990.002	989.4408	-0.06	-0.07	990.0516	4.09	+0.51
Luxembourg	20.6255	20.6323	+0.03	+0.01	20.6314	3.54	-0.04
Netherlands	1.12674	1.1275	+0.07	+0.06	1.1272	3.36	-0.22
Portugal	102.505	102.5678	+0.06	+0.02	102.575	3.64	+0.06
Spain	85.0722	85.0612	-0.01	-0.13	85.0971	3.93	+0.35
Germany	1		+0.00	+0.00		3.58	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Nov 16	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.59	3.62	3.68	3.72	6.50	6.53	5.07	5.10	0.36	0.39
2 year	3.63	3.66	3.66	3.70	6.11	6.15	5.06	5.09	0.43	0.46
3 year	3.73	3.76	3.75	3.79	6.06	6.10	5.16	5.19	0.53	0.56
4 year	3.85	3.88	3.87	3.91	6.05	6.09	5.23	5.26	0.63	0.66
5 year	4.00	4.03	4.01	4.05	6.00	6.04	5.28	5.31	0.74	0.77
6 year	4.15	4.18	4.16	4.20	5.96	6.00	5.32	5.35	0.85	0.88
7 year	4.28	4.31	4.29	4.33	5.91	5.95	5.39	5.42	0.96	0.99
8 year	4.40	4.43	4.40	4.44	5.86	5.90	5.44	5.47	1.08	1.11
9 year	4.50	4.53	4.50	4.54	5.83	5.87	5.50	5.53	1.20	1.23
10 year	4.58	4.61	4.59	4.63	5.81	5.85	5.56	5.59	1.32	1.35
12 year	4.74	4.77	4.75	4.79	5.78	5.83	5.70	5.73	1.56	1.60
15 year	4.93	4.96	4.93	4.97	5.76	5.82	5.82	5.85	1.79	1.83
20 year	5.13	5.16	5.13	5.17	5.73	5.80	5.92	5.95	1.98	2.03
25 year	5.27	5.30	5.26	5.31	5.72	5.79	5.93	5.96	2.04	2.09
30 year	5.34	5.37	5.33	5.38	5.70	5.78	5.93	5.95	2.13	2.18

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR, D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

GOVERNMENT BOND SPREADS vs ECU

Nov 16	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.09	+0.03	+0.26	-0.01	-0.57	+0.05
Belgium	-0.13	+0.01	+0.16	+0.09	+0.03	-0.05
Finland	-0.17	+0.07	+0.27	+0.16	-0.51	-0.93
France	-0.18	-0.11	-0.07	-0.08	-0.07	-0.25
Germany	-0.15	-0.09	+0.07	-0.20	-0.11	-0.25
Ireland	-0.06	+0.00	+0.14	+0.11	+0.15	+0.43
Italy	+0.06	+0.09	+0.22	+0.19	+0.16	+0.07
Luxembourg	-0.13	+0.01	+0.16	+0.09	+0.03	-0.05
Netherlands	-0.10	+0.01	+0.14	-0.08	+0.06	-0.25
Portugal	-0.13	+0.04	+0.33	+0.17	+0.23	+0.08
Spain	-0.22	-0.01	+0.26	+0.23	+0.11	+0.02
"OUTs"						
Denmark	+0.28	+0.38	+0.43	+0.26	-0.08	+0.50
Greece	+6.49	+4.86	+3.84	+3.15	+2.26	+1.84
Sweden	+0.16	+0.28	+0.47	+0.31	+0.18	-0.24
UK	+1.76	+1.02	+1.02	+0.61	-0.21	-0.85

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

Nov 16	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	110.100	4.40	+0.01	+0.07	+0.06
France (Rep of)	04/08	5.250	AAA	107.570	4.25	+0.01	+0.05	-0.10
Italy (Rep of)	05/08	5.000	AA	104.080	4.46	+0.02	+0.02	+0.11
Portugal (Rep of)	06/08	5.375	AA-	106.360	4.54	+0.02	+0.09	+0.19
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.290	4.01	+0.03	+0.04	+0.09
Gen Electric Cap Crp	10/04	5.500	AAA	107.450	4.05	+0.03	+0.12	+0.06
Oest Kontrollbank	04/08	5.250	AAA	105.200	4.56	-0.04	+0.05	+0.21
Cred Local de France	04/08	5.250	AA+	104.030	4.71	+0.03	-0.01	+0.36
Ecu issues								
Bayer Hypo & Wcb Bk	07/01	5.000	AA-	102.433	4.00	+0.03	+0.36	+0.17
Cred Foncier France	03/04	8.375	A	118.012	4.49	+0.03	+0.15	+0.50
Euro Inv Bank	04/04	5.250	AAA	106.430	3.90	+0.00	+0.02	-0.09
ABN Amro Hldg. NV	04/07	6.375	AA-	110.108	4.88	+0.02	-0.03	+0.64

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "In" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

EUROZONE CREDIT SPREADS vs ECU

Nov 16	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.13	+0.16	+0.14
France Telcom	AA+	11/06	6.250	FRF	+0.25	+0.12	+0.22
Halifax	AA	07/07	5.625	DEM	+0.45	+0.43	+0.36
Ing Bank NV	AA-	01/08	5.500	NLG	+0.31	+0.25	+0.39
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.26	+0.26	+0.24
Cred Foncier	A	02/03	7.250	DEM	+0.49	+0.51	+0.59
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.48	+0.50	+0.47
Generale des Eaux	N/A	03/04	6.250	FRF	+0.39	+0.39	+0.43
Bank of China	BBB	07/99	7.125	DEM	+1.89	+2.19	+2.71
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.77	+1.00	+1.83
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.95	+6.48	+8.16
Argentina	BB	04/08	8.125	XEU	+4.98	+5.01	+5.60

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "In" currencies.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 17.11.98 — Final Prices for Trading on 28.10.98

½ hour period ending	Pool	Pool	Pool	TS use of
[illegible]				

Investors wait for FOMC meeting

GOVERNMENT BONDS

By Vincent Boland and Arkady Ostrovsky in London and John Labate in New York

Investors adopted a wait-and-see attitude yesterday ahead of the decisive US Federal Reserve meeting today, which could see US interest rates fall further in response to continued jitters about the health of emerging markets.

Prices ended slightly weaker, although a positive reaction to the latest economic stimulus package from Japan provided some support for prices. Brady bonds staged a small rally, taking comfort from the $41bn aid package for Brazil designed to offset further threats to its currency.

The consensus of analysts' expectations was for an interest rate cut of 25 basis points by the FOMC, but that conviction has weakened in recent weeks.

"The economic picture does show a slowdown in the economy, but what makes it more mixed is the financial sector, especially in the US," said Maureen Maitland, US economist at Donaldson, Lufkin & Jenrette.

US Treasuries had eased slightly by midday. The benchmark 30-year bond was down ⅛ to 99⅞, sending the yield up to 5.258 per cent. The 10-year note was $\frac{7}{32}$ lower at 99$\frac{5}{32}$, yielding 4.842 per cent, and the two-year note was down $\frac{1}{32}$ to 98$\frac{15}{16}$, yielding 4.574 per cent.

Evidence that the economy was in need of a stimulus came with the latest industrial production figures, which fell 0.1 per cent in October, more than analysts had expected, and helped to offset last week's surprisingly strong retail sales report.

European markets followed German bunds lower, but activity was thin, with little on the domestic front to attract investor attention. Analysts said current prices had discounted a further US rate cut, which would confirm the downward trend and open the way for further European cuts.

However, Phyllis Reed at Barclays Capital said the short-term mood in European markets was bearish as investors sought to ascertain whether yields would begin to fall again and as the market looked to recover its poise after falling sharply from its crisis-point peak.

The December bund future settled at 112.38, down 0.09 on the close last week, in very light DTB trading. In the cash market, the yield on the 10-year bund rose one basis point to 4.17 per cent.

Japanese government bonds succumbed to profit-taking after a generally positive reception for the government's latest economic stimulus proposals. Fears that public-sector buying of JGBs might slow also helped to push prices lower and the yield on 10-year bonds stood at 0.85 per cent in Tokyo.

A rally in Brazilian Brady bonds helped emerging market issues to rebound. The Brazil C bond was trading at 63¼ early in New York, up 1¼, and other issues moved higher. Tim Ash at WestMerchant said the package was a positive signal but investors were still focusing on Brazil's huge domestic debt.

Finland taps euro sector

INTERNATIONAL BONDS

By Edward Luce, Capital Markets Editor

Finland yesterday issued probably its last syndicated bond in euros before it is adopted as the domestic currency and is tapped though the normal government bond auction process.

The E500m offering, which will be fungible with Finland's recent five-year DM1bn offering to reach an outstanding issue of about E1bn, was largely targeted at Asian investors.

An official at HSBC Markets, joint lead with Merrill Lynch, said more than half the combined book had gone to Asian investors, especially large central banks.

Countries such as China and South Korea have recently made positive noises about adopting the euro quite early on as a leading reserve currency. China is thought to be planning to denominate 15 to 25 per cent of its reserves in euros.

Bankers said the success of the deal, which was priced to yield 12 basis points over the five-year bund (and not, significantly, the French OAT benchmark), complemented the investor base on the recent D-Mark issue, which was strongly European. "There is still a big premium attached to liquidity which is why it was important these two deals were fungible," said one.

It was priced to yield two basis points more than the secondary market spread on the D-Mark bond, in reflection of the difference in swap rates between the two currencies. Both bonds correspond to a sub-Libor funding rate of minus 14 basis points.

Premier Pub Finance, a funding vehicle set up on behalf of Marston's, the UK brewer, heralded the return of the asset-backed market in Europe with a £155m three-tranche offering secured against rental income and beer sales from 569 pubs. Almost all the bonds went to UK investors.

This marked the first time Nomura had lead-managed a securitisation in which it did not have a significant, or 100 per cent, stake.

The Japanese securities house, which has securitised Ministry of Defence housing and arranged other private finance initiative deals in the last two years, also owns 4,600 British pubs.

The acquisition cost of buying these pubs from Grand Met and Courage last year is expected to be refinanced in the bond markets when conditions permit.

Credit Lyonnais, the French bank issued a FFr10bn deal yesterday secured on the back of a domestic mortgage portfolio.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
ANZ Banking Group‡	250	(a)	99.93267R	Jun 2000	0.0625R	-	Nomura International
■ STERLING							
Premier Pub Fin Co. A1(b)‡	40	(b1)	100.00R	Sep 2008	0.35R	-	Nomura International
Premier Pub Fin Co. A2(b)	80	7.153	100.00R	Dec 2022	0.75R	-	Nomura International
Premier Pub Fin Co. M(b)	35	7.74	100.00R	Dec 2026	1.00R	-	Nomura International
■ FRENCH FRANCS							
Titrilog. A1(c1)‡	2.4435bn	(c1,s)	100.00R	Feb 2001	0.10R	-	Crédit Lyonnais
Titrilog. Alpha 1(c1)★‡	2.4435bn	(c1,s)	100.00	Feb 2001	undiscl	-	Crédit Lyonnais
Titrilog. A2(c2)‡	2.094bn	(c2,s)	100.00R	Jun 2005	0.15R	-	Crédit Lyonnais
Titrilog. Alpha 2(c2)★‡	2.094bn	(c2,s)	100.00	Jun 2005	undiscl	-	Crédit Lyonnais
■ SWISS FRANCS							
Municipality Finance	150	3.25	102.95	Dec 2008	2.75	-	Warburg Dillon Read
Statoil(d)	100	2.75	103.35	Oct 2004	2.25	-	ABN Amro(Zurich Branch)
■ EUROS(e)							
Republic of Finland(f)	500	3.75	99.191R	Nov 2003	0.25R	+12(6%Sep03)	HSBC Mkts/Merrill Lynch
■ CANADIAN DOLLARS							
GE Capital Canada Funding	100	5.25	99.565R	Dec 2004	0.275R	+23(6½Jun04)	CIBC Wood Gundy
■ BELGIAN FRANCS							
MBS-4(g1)‡	2.25bn	(g1)	100.00	Oct 2000	undiscl	-	Bacob Bank
MBS-4(g2)‡	5.00bn	(g2)	100.00	Apr 2006	undiscl	-	Bacob Bank
MBS-4(g3)‡	3.39bn	(g3)	100.00	Oct 2011	undiscl	-	Bacob Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor flat. b) Secured on cashflows generated by Marston's tenanted estates. Quarterly coupons. b1) 3-mth Libor +80bp. c) Secured on housing loans originated by Crédit Lyonnais. c1) Av life: 1.1 yrs. 3-mth Pibor +17bp. c2) Av life: 4.38 yrs. 3-mth Pibor +36bp. c3) Also issued: junior tranches B of FFr462.5m and Beta FFr462.5m. d) Fungible with SFr200m. Plus 62 days accrued. e) Payments in Ecu prior to Emu. Spread relates to German govt bonds. f) Plus 13 days accrued. Fungible with DM1bn upon Emu. g) Secured on Belgian mortgages originated by Bacob Bank. g1) Av life: 0.98 yrs. 3-mth Bibor +11bp. g2) Av life: 4.4 yrs. 3-mth Bibor +21bp. g3) Av life: 10.89 yrs. 3-mth Bibor +30bp. g4) Also issued: Class B of BFr360m. s) Short 1st coupon.

European high-yield sector 'to recover'

By Khozem Merchant

The European high-yield "junk bond" market will recover strongly from the damage inflicted by Russia's debt default, according to Moody's, the US rating agency. It says the virtual closure of the market in European currency high-yield bonds since August "is not so much a crisis as a correction and a turning point".

In the near term, Moody's forecasts more defaults among European high-yield issuers, especially those in commodity-related sectors or with heavy exposure to Asia or eastern Europe.

However, several factors will fuel long-term growth, Moody's says. Foremost is the emergence of a unified capital market when the European single currency is introduced in January. This will encourage transparency between credits, forcing companies to boost performance by, for example, shedding "lower return entities".

Fund managers will also come under pressure to go down the credit curve to sub-investment grade credits in search for higher returns.

The European junk bond market took off 18 months ago, following its US counterpart. The value of high-yield issues in the eight months to August was equal to $13.7bn. In the previous year, issuance totalled $6.4bn, says Moody's.

The US market, although also hit by the Russian crisis, is showing signs of revival triggered by two US interest rate cuts. Dollar issuance has totalled more than $2bn in each of the past three weeks. Since mid-October, there have been 34 issues totalling nearly $8bn.

NEWS DIGEST

GOVERNMENT FINANCING

France plans reduction in debt issuance next year

France will issue about FFr290bn of bonds with maturities of seven to 30 years (OATs) and FFr240bn of two and five-year notes (BTANs) next year, down from an estimated FFr320bn and FFr270bn respectively this year, according to the government's preliminary 1999 budget. The lower financing needs are a result of a consumer-led pick-up in economic growth and the fall in interest rates, which has reduced the cost of servicing existing debt.

"After the peak observed in 1997 [FFr645bn], the state's medium and long-term financing needs will be approximately FFr608bn in 1998 and close to FFr528bn in 1999," said Thierry Carcenac, rapporteur of the parliament's finance committee. He said "the strong decline of the state's financing needs does not hide the ongoing rise of outstanding debt" but if the government managed to meet its target of reducing the budget deficit to 2 per cent, total debt as a proportion of gross domestic product would *start to fall from* 2000.

The draft budget was criticised by the budget and finance committee of the senate, the upper legislative chamber which is dominated by the right-wing opposition. Philippe Marini, the senate committee's rapporteur, said the government should "go further in reducing its deficits and stabilising the public debt". It was inappropriate, he added, for the government to fund operating expenditures through debt issuance. Some FFr70bn of next year's bond issues will finance operating expenditures, according to Mr Marini. **Samer Iskandar, Paris**

SECURITISATION

Royalty bond for song-writer

Royalties from dozens of hit songs composed by Duane Hitchings, the US song-writer, including "Do Ya Think I'm Sexy" by Rod Stewart, "Hit 'Em Up" by Tupac Shakur and "Gettin' Money" by Notorious B.I.G. are to be securitised in a forthcoming bond issue.

The new royalty bond, which will include the rights to works by other composers and performers, could raise up to $100m, according to David Pullman, the Wall Street financier whose Pullman Group has completed similar transactions for David Bowie and the Holland Dozier Holland song-writing team.

Royalty bonds work by advancing money to the copyright holder in return for the future royalties payable whenever their music is performed or broadcast over a fixed period of time, usually 15 years. They have become increasingly popular over the past year as investors have searched for more lucrative alternatives to low-yielding Treasury bonds.

The musicians and composers included in the issues tend to have records established over a number of years, thereby giving a fairly accurate indication of their future earnings potential. **Alice Rawsthorn**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 16	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.2832	4.64	-	+0.03	+0.45	-0.34
	08/08	8.750	127.2875	5.15	+0.01	-0.05	+0.29	-0.80
Austria	07/00	5.875	103.5100	3.63	+0.03	+0.02	+0.12	-0.92
	01/08	5.000	104.2800	4.42	+0.02	-0.02	+0.08	-1.22
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	109.33	109.02	-0.05	109.35	108.83	40,968	91,545

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

■ NOTIONAL GERMAN BOND FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

[illegible]

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

■ NOTIONAL LFB SWAP FUTURES (LIFFE) 5yr 4.0% DM250,000 points of 100%

[illegible]

■ NOTIONAL LFB SWAP FUTURES (LIFFE) 10yr 4.5% DM250,000 points of 100%

[illegible]

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE) Lira 200m 100ths of 100%

[illegible]

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira 200m 100ths of 100%

[illegible]

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

[illegible]

■ NOTIONAL UK GILT FUTURES (LIFFE) £100,000 100ths of 100%

[illegible]

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

[illegible]

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	103.60	103.50	-	-	-	-	306

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

INTERNATIONAL BONDS

Nov 16	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO-DM								
EIB	02/07	5.750	AAA	109.3584	4.37	+0.01	+0.08	+0.14
Spain	01/07	5.750	AA	108.8000	4.43	+0.04	+0.08	+0.20
Philip Morris	03/04	5.375	A	103.7000	4.57	+0.02	+0.07	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES & MONEY

Dollar sinks awaiting Fed's decision

MARKETS REPORT

By Alan Beattie

The dollar fell towards the bottom of its recent range against the yen yesterday as the market awaited today's US Federal Reserve decision on interest rates.

An eleventh-hour climbdown by Iraq over United Nations weapons inspections and softer-than-expected US industrial production data added to the downward pressure on the dollar.

By the close of London trading on Monday, the dollar had fallen to Y119.8 against the yen, compared with Y122.2 on Friday. It was also lower against sterling, closing at $1.676, and the D-Mark, closing at DM1.667.

Some minor support for the yen also came from yesterday's release of the official details of the Japanese government's fiscal package, which was slightly larger than expected.

■ The dollar's fall yesterday against the yen convinced few analysts that it was part of a sustained movement in the currency pair, the focus of attention in recent weeks.

Drew Gross, head of foreign exchange at Chase Manhattan in London, said some position-squaring had caused the dollar's correction against the yen on the day, but that the market was waiting for the Fed's decision on Tuesday to give it some direction.

"The dollar was trading at the lower end of the range it has kept in for the past couple of weeks," said Mr Gross.

The prospect of US-led air strikes against Iraq had helped support the dollar. But a decision to call off the attacks at the last moment on Saturday led to the unwinding of those long dollar positions yesterday and hence a fall in the US currency.

Most observers expected a 25 basis point cut in the US federal funds rate today. A reduction could help alleviate fears haunting financial markets of a possible credit squeeze.

But some strategists think such a cut could be the last for some time, and that this may be insufficient to maintain longer-term liquidity in the US financial system.

"If the Fed likes the two-year through to thirty-year yields where they are, they will have to cut the funds rate to at least 4.5% in coming months," said Alan Ruskin of economic consultancy 4Cast in a research note released on Friday.

Ray Attrill of 4Cast in London added that failure by the Fed to ease aggressively in the near future could lead to the whole yield curve shifting up, possibly strengthening the dollar.

"There could be a very vigorous debate at the Fed tomorrow," said Mr Attrill. "It won't be the usual situation with a diktat by [Alan] Greenspan."

■ The Federal Reserve's decision will also be watched closely in Brazil, whose precarious journey towards currency stability received a jolt over the weekend after reported comments by outspoken exchange rate economist Rudiger Dornbusch.

Comparing Brazil to Russia, Professor Dornbusch was reported as saying that the countries had "the same debt problem, the same deficit and the same lack of political will to solve them - all on top of an overvalued exchange rate."

The Russia analogy raised some eyebrows among strategists in the currency markets. The International Monetary Fund's rescue package for Brazil is designed to avoid a Russia-style sharp devaluation and debt default.

"There has been quite a bit of interest in Dornbusch's comments," said one emerging market foreign exchange analyst at a US bank in London yesterday.

"If the Fed doesn't move tomorrow they might grow in significance."

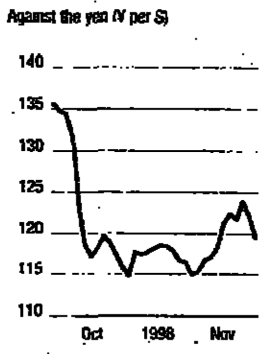
■ The release of the final version of Japan's latest fiscal package did not set markets alight.

The plan promised a total of Y24,000bn in tax cuts and public spending increases, somewhat higher than the figures of Y17,000bn and then Y22,000bn being bandied about last week.

Cynics said that while the latest scheme offered a bigger fiscal stimulus than previous versions, it may fall far short of what is needed to galvanise private spending and restore some semblance of economic normality to Japan.

Dollar

Against the yen (Y per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Nov 16	—Latest—	— Prev. close —
£ spot	1.6775	1.6840
1 mth	1.6752	1.6817
3 mth	1.6711	1.6578
1 yr	1.6561	1.6430

■ OTHER CURRENCIES

Nov 16	£	$
Czech Rp	49.6550 - 49.7344	29.6430 - 29.6780
Hungary	361.788 - 362.274	215.880 - 216.180
Iran	5027.40 - 5025.30	3000.00 - 3000.00
Kuwait	0.5072 - 0.5079	0.3028 - 0.3031
Peru	5.1777 - 5.1849	3.0910 - 3.0940
Poland	5.7498 - 5.7606	3.4325 - 3.4375
Russia	31.2244 - 31.5888	18.7000 - 18.8500
U.A.E.	6.1523 - 6.1554	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

Oil loses war premium as Iraq crisis ends

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Paul Solman

The apparent end of the latest crisis over Iraq sent oil prices lower yesterday as the small "war premium" generated during last week's confrontation between Baghdad and the United Nations dissipated.

Brent Blend for January delivery was quoted at $12.16 a barrel in late trading on London's International Petroleum Exchange, down 16 cents from Friday's close.

The market focus is now expected to shift from Iraq to next week's meeting of the Organisation of Petroleum Exporting Countries.

However, traders yesterday shrugged off new evidence that Opec production cuts are beginning to bite. A Middle East Economic Survey report put Opec compliance with promised production cuts at 93 per cent during October.

Copper's price came close yesterday to touching the 11½-year low of $1,570 a tonne it fell to last month. It dropped to $1,573 at one point on the London Metal Exchange, according to dealers, who said fund selling was responsible.

However, copper pulled back and closed at $1,585, only $2 a tonne lower than Friday's close.

Attention has now turned to whether the US Federal Reserve will cut interest rates again at its meeting today.

Larry Kaplan, analyst at Flemings Global Mining Group, pointed out, however: "Historically, metal prices have not done very well in falling interest rate environments, since these have tended to auger further economic slowing."

December cocoa futures fell £3 yesterday to close at £972 a tonne on the London International Financial Futures and Options Exchange.

The International Cocoa Organisation lowered its estimate of world cocoa grindings for 1997-98 by 20,000 tonnes. Global grindings are now put at 2.81m tonnes for the period, some 1.5 per cent below the 1996-97 figure.

Ivory Coast, the largest producer, is expected to grind 205,000 tonnes of cocoa, 45 per cent more than the previous year.

Meanwhile, industry buying pushed January coffee up $35 on Liffe to finish at $1,633 a tonne.

Cereal farmers gloomy on CAP reform

Most countries have doubts about European Commission proposals that include a cut in guaranteed prices paid when markets are depressed, writes Michael Smith

Scottish cereals farmer Douglas Morrison has had a year to forget. Low world grain prices and torrential rain in Scotland have provided him with his worst year since he began farming 30 years ago – and he fears more gloom is on the way.

The problem is the European Commission's proposals to reform the cereals sector. "If the commission gets its way, my annual profitability in future will be 15 to 25 per cent down on last year's levels," he says.

Mr Morrison's fears are typical of cereal farmers throughout Europe, but they may struggle to win the backing of European Union farm ministers, who will decide the final shape of common agricultural policy reforms also embracing milk and beef.

Most countries oppose or have doubts about the commission's cereals proposals, which include a 20 per cent cut in guaranteed prices paid when markets are depressed.

However, EU diplomats believe that in the horse-trading ahead of proposed completion of a deal on CAP reforms early next year, cereals farmers will be low on the ministers' list of priorities.

Part of the reason is that, apart from this year, the sector has done well financially since the first significant reform of the Common Agricultural Policy in 1992, which also included guaranteed price cuts.

Market prices have been higher than expected and the commission now believes that the direct payments provided to farmers to compensate for the guaranteed price cuts were too high.

The cereal farmers' relative prosperity is reflected in their share of the CAP budget. While they produced 11 per cent of farm output by value in 1997, they received 40 per cent of the CAP's funds, or one-fifth of the total EU budget.

The Commission has no plans to cut the money back; indeed, its reforms would add more than Ecu1bn ($1.165bn) a year to the cereals budget. It does, however, aim to make cereals the most market-oriented of the three main sectors being reformed.

Without reform, the sector is heading for heavy overproduction. Improved efficiency will boost production far more than demand is growing and, with subsidy-supported exports constrained by World Trade Organisation agreements, the commission estimates that there will be a cereals surplus of 50m tonnes in 2005, compared with 14m tonnes last year.

Grain mountains would grow further with EU enlargement to other countries in the middle of the next decade.

One solution would be to increase the amount of land farmers must take out of production. But that would be politically hard to justify to a European public already puzzled by the so-called "set aside" arrangements.

Farm commissioner Franz Fischler's solution is to cut guaranteed prices for cereals by a fifth, with the aim of reducing market prices to around world levels. Freed of WTO constraints on subsidised exports, farmers would be able to sell more.

There would no longer any need to force farmers to take land out of production so, as the second major reform, the commission would normally set the compulsory set-aside rate at nil. A third reform would end the practice of making higher direct subsidies, paid as compensation for price cuts, to oilseed farmers.

Beneficiaries would include consumers, who would pay less for food, and other farmers, who would have cheaper animal feed.

Of the three main planks of cereal reform, set-aside is probably least contentious. At least eight countries, including Belgium, Spain, France and the Netherlands, are likely to support the proposals while Denmark, Sweden and the UK want to end set-aside altogether.

The Commission must fight harder to get through the 20 per cent price cuts, partly because its direct compensatory payments would cover only half the reduction. It argues that market prices will fall by less than guaranteed prices, and so full compensation for the cut in the intervention price would again mean overcompensation.

Many farmers, including Mr Morrison, can see the argument for price cuts, but they want full compensation, and most EU countries – including Belgium, Germany and Spain – back them.

However, at least some governments, including Germany's, are expected to soften their opposition when the hard bargaining begins.

Helmut Kohl's government opposed any price cuts, but some officials question that policy and the new SPD-led administration appears more ready to embrace reform.

The biggest cereals battle will be over the commission's plan to cut oilseed payments to the level of other cereals. Oilseed farmers enjoy premium payments, in part because the EU wanted to reduce its dependence on imports.

Douglas Morrison: sees profits falling 15-25 per cent James Fraser

However, several countries question whether the levelling approach will free oilseed farmers to grow without WTO restraints, as the commission argues.

Spain and Portugal fear their sunflower farmers would turn to crops already in surplus, and they are joined by Finland, Ireland, Italy, Luxembourg, Finland and Sweden in opposing the oilseeds proposals.

The commission may therefore have to give ground on oilseeds, perhaps by accepting a gradual cut in payments. But on the bigger but less controversial proposal to implement guaranteed price cuts with compensation, it should have more success.

Mr Morrison and other farmers will just have to hope the commission is right when it predicts that their incomes will not fall.

This is the last in a series on CAP reforms. Previous articles appeared on October 19, October 27 and November 3

ZINC CONSUMPTION STILL SEEN RISING

China 'to cut production and exports'

By Kenneth Gooding, Mining Correspondent

China, the world's biggest zinc producer, will consume more of the metal, produce less and its exports will fall steadily over the next five years, according to a study by the Metal Bulletin Research consultancy in conjunction with the China Non-ferrous Metals Industry Corporation.

Last year China's zinc smelters were caught in a vicious squeeze on the London Metal Exchange and reacted by boosting output of the metal, the third most important non-ferrous metal after iron and copper, by nearly 19 per cent and exports by 158 per cent.

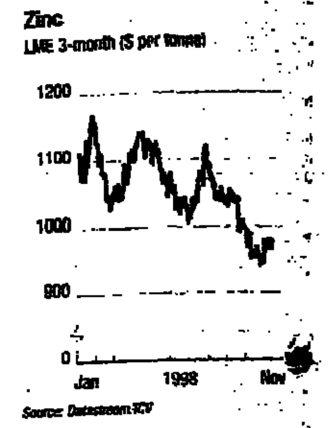
China lifted its production of zinc, used mainly as a coating to protect iron and steel from rusting, to 1.41m tonnes, equivalent to nearly one-fifth of the global total.

The MBR study points out that Chinese zinc mine production has risen dramatically in the 1990s, increasing from 760,000 tonnes to about 1.32m tonnes in 1997. Most of this came from small, local mines that are very sensitive to the global price.

MBR is forecasting that mine production will grow relatively slowly over the next five years, at an annual average of 1.1 per cent, compared with 9 per cent in the previous six years.

Daniel Smith, senior metals consultant, says: "While there is enormous potential for expansion in mine production, there are few projects sufficiently advanced or attractive to investors to have a realistic chance of coming into production in the next five years."

Growth in zinc metal output from China is also forecast to slow sharply, from an annual 15.2 per cent over the past six years to 2 per cent for the next five years.



Source: Datastream/ICV

Meanwhile, MBR suggests, China's consumption of zinc will continue to rise strongly, by 5.8 per cent a year. This compares with annual growth of 9.6 per cent between 1990 and 1996.

The combination of falling output and rising consumption will lead to zinc exports steadily falling by an average 10 per cent.

● China's zinc exports fell 35.5 per cent to 268,000 tonnes in the first nine months of 1998 and analysts wonder if this means stocks are rising and if it would take only a pick-up in prices for them to be exported.

Macquarie Equities, part of the Australian bank, suggests China's stocks are not excessively high and there is no threat of an imminent surge in exports. However, it adds: "Longer-term, however, it looks likely China could continue to act as a cap on the market."

A strategic analysis of the zinc industry of China. MBR, 167 Lower Marsh, London SE1 7JR, UK. £3,500 or US$5,950.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1300.5-01.5	1317-17.5
Previous	1315-6	1329-30
High/low		1328/1314
AM Official	1306-06.5	1321.5-22
Kerb close		1318-19
Open int.	344,538	
Total daily turnover	64,663	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1087-92	1118-20
Previous	1098-103	1127-30
High/low		1125/1115
AM Official	1086-87	1118-19
Kerb close		1115-20
Open int.	7,573	
Total daily turnover	3,169	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	485-6	496-6.5
Previous	485.5-6.5	495-6
High/low		497.5/495
AM Official	484.5-5	495-5.5
Kerb close		496-7
Open int.	39,631	
Total daily turnover	7,043	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4130-30	4190-95
Previous	4140-50	4210-15
High/low		4220/4185
AM Official	4130-35	4180-90
Kerb close		4195-200
Open int.	66,044	
Total daily turnover	13,799	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5430-40	5385-95
Previous	5465-75	5420-30
High/low		5410/5360
AM Official	5400-10	5370-75
Kerb close		5400-10
Open int.	19,192	
Total daily turnover	9,344	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	956.5-7.5	974-75
Previous	970-1	985-6
High/low		981/973
AM Official	961.5-2	978-9
Kerb close		974-5
Open int.	87,334	
Total daily turnover	14,132	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1551-2	1580-80.5
Previous	1558-9	1585-6
High/low		1592/1573
AM Official	1557-58	1587-88
Kerb close		1585-86
Open int.	172,811	
Total daily turnover	33,986	

■ LME AM Official £/$ rate: 1.6723

LME Closing £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX)

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	295.1	-0.9	-	-	3	3
Dec	295.6	-0.9	296.5	295.1	25,406	53,587
Feb	297.8	-0.9	298.8	297.2	5,585	25,830
Apr	299.8	-0.9	300.5	299.5	324	16,412
Jun	301.5	-0.9	302.0	301.0	94	14,297
Aug	303.2	-0.9	-	-	20	5,618
Total					32,241	168,974

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	352.0	+3.4	352.5	346.0	2,047	14,195
Apr	353.2	+3.4	353.0	349.0	103	601
Jul	354.8	+3.5	350.0	350.0	13	167
Oct	356.1	+3.5	355.0	355.0	16	993
Total					2,179	18,956

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	278.50	+1.00	279.00	275.00	157	1,537
Mar	278.00	+1.00	276.50	275.50	25	1,174
Jun	276.00	+1.00	276.50	276.50	2	5
Total					182	15,956

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	491.5	-9.8	-	-	-	-
Dec	492.7	-9.8	505.0	488.5	16,426	41,439
Jan	494.9	-9.8	-	-	-	88
Mar	498.1	-9.7	509.5	495.0	1,938	19,335
May	500.6	-9.5	509.5	500.0	125	4,774
Jul	503.0	-9.3	513.0	500.0	164	4,478
Total					18,477	79,587

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	13.21	-0.36	13.44	13.08	89,261	65,427
Jan	13.50	-0.29	13.73	13.40	52,752	104k
Feb	13.82	-0.17	13.96	13.64	1,721	49,334
Mar	14.05	-0.13	14.22	13.91	7,118	25,058
Apr	14.22	-0.13	14.36	14.10	4,467	15,965
May	14.40	-0.12	14.50	14.30	1,170	14,162
Total					194,499	478,581

■ CRUDE OIL IPE ($/barrel)

	Open price	Day's change	High	Low	Vol	Open int
Jan	12.11	-0.21	12.32	12.03	22,719	98,101
Feb	12.44	-0.26	12.61	12.35	5,220	29,597
Mar	12.67	-0.21	12.80	12.50	2,299	17,937
Apr	12.83	-0.22	12.93	12.68	540	14,493
May	13.14	-0.08	13.16	12.95	716	8,203
Jun	13.52	-	13.83	13.47	910	18,671
Total						

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	37.00	-0.86	37.50	36.70	15,752	47,923
Jan	38.30	-0.87	38.95	38.10	5,621	45,825
Feb	39.30	-0.77	39.90	39.10	3,163	30,124
Mar	39.95	-0.52	40.25	39.75	2,331	19,853
Apr	40.05	-0.47	40.35	39.85	585	10,456
May	40.55	-0.12	40.55	40.30	268	8,005

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS IPE

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	78.75	+0.50	79.25	78.75	12	33
Jan	80.10	+0.30	80.50	80.10	89	2,607
Mar	82.10	+0.20	82.50	82.00	25	3,202
May	84.10	+0.35	84.10	84.10	110	2,362
Jul	86.10	+0.25	-	-	-	220
Total					160	9,317

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	286.50	-1.00	289.50	285.50	10,197	54,273
Mar	303.00	-0.75	305.75	302.00	6,384	51,145
May	312.50	-1.00	315.00	312.00	525	7,128
Jul	322.25	-	324.00	321.50	1,125	17,770
Sep	331.00	+0.50	-	-	35	805
Dec	342.00	-	342.50	340.00	4	848
Total					18,233	131,988

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	219.25	-1.25	221.25	218.50	28,760	131,899
Mar	230.25	-1.00	232.00	229.50	11,924	111,090
May	237.50	-0.75	239.25	235.75	1,909	36,822
Jul	242.75	-0.50	244.25	241.75	2,147	44,535
Sep	248.00	-0.25	250.00	248.00	116	6,997
Dec	254.50	-	255.75	253.25	692	20,309
Total					45,654	353,487

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	78.25	+0.25	-	-	-	-
Jan	79.65	+0.25	-	-	-	867
Mar	82.00	+0.25	82.50	82.25	10	151
May	83.00	+0.25	82.50	82.50	-	33
Sep	81.75	+0.25	-	-	-	-
Total					10	1,051

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	569.75	-1.25	572.50	568.25	4,462	4,837
Jan	577.50	-0.25	579.50	575.50	36,327	67,255
Mar	587.00	-0.25	589.00	584.50	5,140	28,840
May	595.25	+0.50	596.50	592.50	1,764	12,877
Jul	602.75	-	604.25	600.50	2,492	17,768
Aug	605.00	+2.00	605.00	602.00	62	1,211
Total					51,257	138,988

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	24.51	-0.02	24.74	24.50	8,471	41,510
Jan	24.64	-	24.80	24.62	3,717	20,883
Mar	24.77	-	24.90	24.72	2,120	21,514
May	24.92	+0.05	24.97	24.75	1,419	10,845
Jul	25.02	+0.08	25.02	24.82	2,535	13,355

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

■ PULPEX OMLX

[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	973	-2	976	969	3,578	39,326
Mar	1008	-	1011	1003	2,112	39,733
May	1027	-1	1031	1023	851	17,907
Jul	1045	-	1044	1042	174	10,478
Sep	1063	-	1066	1060	375	27,917
Dec	1087	+2	1090	1084	976	11,410
Total					8,801	157,739

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1482	-92	1486	1470	2,273	4,720
Mar	1519	+5	1526	1512	2,838	43,325
May	1544	+4	1551	1540	455	10,783
Jul	1569	+1	1569	1569	34	2,690
Sep	1594	+1	1600	1594	69	3,490
Dec	1624	+1	1631	1631	13	5,299
Total					5,605	74,001

■ COCOA (ICCO) (SDR's/tonne)

Nov 13	Price	Prev. day
Daily	1141.75	1135.68

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	2027	+52	2027	1970	247	4,944
Jan	1632	+34	1633	1586	4,612	22,284
Mar	1593	+32	1595	1551	1,289	9,492
May	1574	+30	1570	1535	358	4,270
Jul	1561	+30	1557	1530	170	1,002
Sep	1546	+30	1530	1525	65	408
Total					6,761	42,828

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	114.00	+1.45	114.70	110.60	4,858	5,707
Mar	111.90	+1.45	114.25	109.50	5,107	16,754
May	111.60	+1.35	111.50	109.60	273	5,161
Jul	112.50	+1.55	112.50	110.75	162	2,156
Sep	113.30	+1.40	173.40	111.50	50	1,516
Dec	114.40	+1.40	114.50	113.60	23	706
Total					10,491	32,056

■ COFFEE (ICO) (US cents/pound)

Nov 13	Price	Prev. day
Comp. daily	95.15	96.98
15 day average	98.28	98.30

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	244.6	-1.0	245.0	243.2	582	19,807
May	244.5	-0.8	245.0	243.3	298	4,375
Aug	244.4	-0.7	244.5	243.8	51	3,193

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

FUTURES DATA

All futures data supplied by CMS.

Minor Metals from Metal Bulletin

[illegible]

INDICES

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	62.375	-1.500	63.500	62.375	5,242	36,826
Feb	63.525	-1.500	64.450	63.525	3,413	35,720
Apr	64.875	-1.500	65.950	64.875	1,318	20,491
Jun	63.250	-1.050	64.000	63.150	953	11,177

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

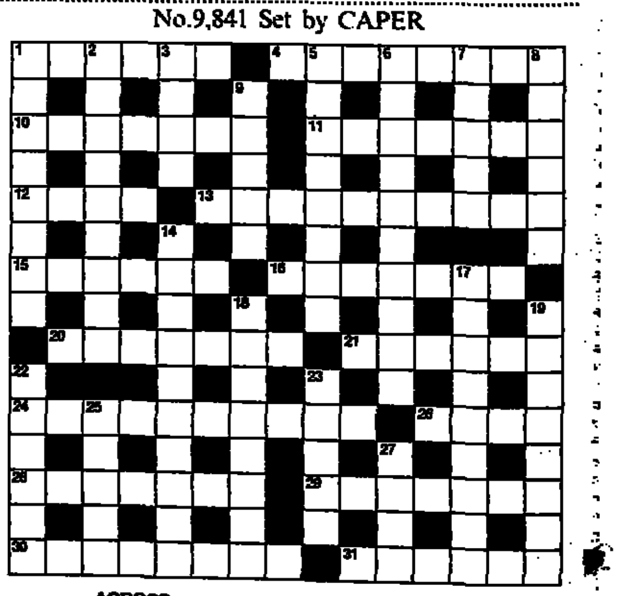
[illegible]

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,841 Set by CAPER



ACROSS

1 What's required is a small container – with case one can't cope (6)
4 In China you go in to it to get out of it (5,3)
10 Dog opening present (7)
11 Judge Bill (7)
12 Dwell over what's horrible (4)
13 Mum gets formal fine in this Scottish town (10)
15 Fur sent back to the French company (6)
16 New nurse is without means (7)
20 One like a hermit, primarily silent with sour exterior (7)
21 One cuts out corns with end of knife (6)
24 I defined it, cryptically, as "sympathised" (10)
26 Not quite a national flag (4)
28 Rabbit caught by another Alice character (7)
29 Show features nude in naughty act (7)
30 Around lido, pose here (8)
31 A little car's *something* that crawls (6)

DOWN

1 One single makes composer bit upset (8)
2 Without right they change colour filters (9)
3 Flat rude doesn't end in time (4)
5 Stealing fish? One's in hot water! (8)
6 Like bare floorboards etc. Pure and new (10)
7 Tennis scorecard (5)
8 See 19
9 Swipes back chair (5)
14 *Large sum* of money starts to entice state's corrupt rulers (10)
17 Leave upset sailor and soldier (6,3)
18 Go mad over slaughtered deer's stole (8)
19, 8 Go for it, weed! (5,3,6)
22 Snag caused by this old Roman trophy (6)
23 The hangman's craft (5)
25 Some generator of love poetry (5)
27 Competent sounding murder victim (4)

Solution to Saturday's prize puzzle on Saturday November 28.
Solution to yesterday's prize puzzle on Monday November 30.

صكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

CAYMAN ISLANDS (REGULATED)(**)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Newton Fund Mgrs - Contd.

LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE
INSURANCES

OTHER OFFSHORE
FUNDS

هكذا من الاصل

هكذا من الاصل

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	♣‡	507xd	-8	648	395	829	5.0	19.3
Bulmer (HP)		335	—	439	291½	1	5.3	15.3
Burn Stewart		16	-3	49½	7	91	-	-
Diageo	♣	665xd	+20	795	449½	4,676	3.0	20.1
Glenmorangie A		697½	—	950	695	-	2.5	18.3
B		627½	—	985	627½	-	1.1	38.6
Highland		280	—	325	225	47	4.8	11.1
5¾pc Cr Sb Bd		95	+¼	99½	88	-	6.2	-
Kirin Y		840¼	+19¾	873¼	416¼	-	0.9	82.7
Matthew Clark	♣	238½	—	242	115	20	6.8	8.2
Merrydown		23½	—	74½	22½	-	-	Φ
Seagram C$		[illegible]	[illegible]	[illegible]	[illegible]	-	1.2	-

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

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TRADED INDEX SECURITIES

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AIM

Alternative Investment Market

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GUIDE TO LONDON SHARE SERVICE

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FT Free Annual Reports Club

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Footsie shrugs off more gloomy corporate news

MARKET REPORT

By Philip Coggan, Markets Editor

A stock market battle was fought again yesterday between a positive international background and some discouraging news from the corporate sector. Victory went to the former.

The weekend climbdown by Iraq over weapons inspections, combined with optimism about the outcome of today's meeting of the US Federal Reserve open market committee, meant that equity markets round the globe had an upbeat air yesterday. Most analysts believe the Fed will cut rates by a quarter of a percentage point for the third time this autumn.

Asian markets set the tone for the day, with Hong Kong gaining 3 per cent and Japan unveiling more details of a Y24trn restructuring plan. London could hardly resist the bullish mood. The FTSE 100 index reached its high for the day, up 77.5 at 5,540.7, in the first seven minutes of trading.

Support also came from Wall Street, where electronic trading indicated the Dow Jones Industrial Average would open well and, sure enough, the Dow quickly leapt past 9,000 when New York opened. And the pound, which has recently shown worrying signs, from UK manufacturers' point of view, of regaining some of its former strength, fell 2 pfg against the D-Mark.

All this enabled the FTSE 100 index to close 47.3 higher at 5,510.5. Like the blue-chip index, the benchmarks for medium and smaller companies were positive throughout the session, although the trading range was fairly limited. The FTSE 250 index ended 9.2 ahead at 4,835.6 and the SmallCap index 0.1 up at 2,067.2.

But the markets were unable to ignore some more bad news on corporate profits, as two leading companies saw their shares take a battering in the wake of a profits warning.

British Steel cautioned that weakness in selling prices, if continued, could lead to a loss for the full year. Unigate said it would not beat last year's profits thanks to a "dramatic" change in the economic environment. Three smaller companies also issued warnings.

Strategists continued to speculate on the outcome of the recent two-way pull on the market.

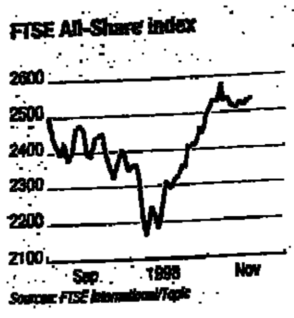
"While robust liquidity conditions and modest valuations relative to gilts continue to strengthen the floor under the FTSE 100, the market still seems to lack the inspiration for another assault on the 5,600 level," says the team at Credit Suisse First Boston in its latest strategy note.

"With growth slowing and earnings forecasts under pressure, interest rates hold the key to a bull view on the equity market," it goes on.

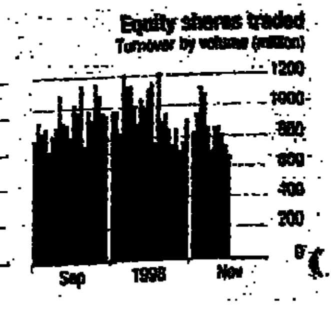
"While recent statements from the Bank of England suggest we may have to wait until 1999 for the next rate cut, we take comfort from the fact that a substantial easing is nevertheless on the cards. The prospect of this outcome suggests that the market's obsession with defensive themes should be on the wane, paving the way for a long-awaited revival in the consumer cyclicals."

Trading volume was subdued yesterday, with only 672m shares dealt by the 6pm count, of which just over half were in non-Footsie stocks.

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	5510.5	+47.3
FTSE 250	4835.6	+9.2
FTSE 350	2623.2	+19.6
FTSE All-Share	2536.44	+16.00
FTSE All-Share yield	3.10	3.12
FT 30	3324.4	+27.9
FTSE Non-Fins p/e	21.14	21.05
FTSE 100 Fut Dec	5545.0	+43.0
10 yr Gilt yield	5.03	5.03
Long gilt/equity yld ratio	1.59	1.60

Best performing sectors

1 Alcoholic Beverages +2.2
2 Insurance +1.9
3 Banks: Retail +1.6
4 Telecommunications +1.6
5 Pharmaceuticals +1.5

Worst performing sectors

1 Retailers: Food -3.0
2 Diversified Industrials -1.6
3 Leisure & Hotels -1.4
4 Breweries: Pubs & Rest -1.3
5 Building Matls & Merchs -1.2

Surging TI defies sceptics

COMPANIES REPORT

By Joel Kibazo, Steve Thompson and Caroline von Loewenich

Engineering company TI Group shrugged off recent concerns as it published what some in the market viewed as a reassuring trading update. The shares hardened 27¾ to 354¾p, the best performer in the FTSE 250.

However, many remain sceptical and one analyst said: "TI has put the best possible gloss on a deteriorating outlook. The company alluded to softness in various businesses in three key divisions. It is now clear 1999 profits will at best be flat if not down on 1998."

Lehman Brothers, which has an "underperform" rating on the stock, said: "Continued profit uncertainity is likely to undermine the share price."

Not even the most pessimistic watchers of British Steel could have anticipated how bad the news would be from the group when it reported interim figures yesterday. The shares declined 7½ to 101p, the worst performer in the FTSE 250 as fears for the dividend also damaged sentiment.

The company said it would post a full-year loss if selling prices continued to fall. Analysts had been expecting a small profit or, at worst, the group to break-even.

The warning came as British Steel posted a first-half pretax profit of £108m, down from £143m. Analysts moved to downgrade profit expectations for the current and following years and several suggested the company may not be able to sustain its dividend of 7p a share after 1999 as the dividend is not likely to be covered by earnings.

One analyst said: "All I can see is more pain for British Steel. Although declining selling prices have been the main area of concern, this is now being compounded by weak volumes, especially in automotives."

Insurance stocks were always being chased, as a general feeling that the sector had been hit too hard after recent poorly-received third-quarter numbers from Royal & Sun Alliance, plus revived, and rather vague, takeover hints.

"The sectors are thought to have been overclubbed and offering decent value," said one dealer, who also hinted the market had been caught short of stock. He also noted the stock market's strong recovery which would also account for much of the shift in sentiment towards the sectors.

Legal & General led the surge, closing 33¼ higher at 695½p, closely followed by Sun Life, up 23 at 522p, and Allied Zurich, up 25 at 730p.

CGU, the newly merged Commercial Union and General Accident, rose 17 to 925p after news of its bancassurance link with Standard Chartered's Hong Kong and Singapore clients.

The Hong Kong stock market's strong performance encouraged the banking stocks associated with the former colony. HSBC climbed 47 to £14.86, while Standard Chartered settled a fraction easier at 619p.

The leading high street banks extended their recent rally, which has been mostly driven by the prospect of falling interest rates, in the UK and elsewhere. But some sector specialists warned that the rally had gone too far too quickly and that some retracement would be inevitable.

Abbey National came in for strong support, its shares moving up 46 to £12.25 on keen turnover of 4.1m, while Barclays added 30 at £12.40 on turnover of 4.8m. NatWest gained 27½ at 950p.

A sharp retreat by global crude oil prices in the wake of the cooling Iraq situation prompted some intense activity in oil shares, especially the two majors, BP and Shell, which occupied the top two places in the FTSE 100 turnover table.

The two leaders moved in opposite directions yesterday. BP finished up 6 at 922p, after reaching a session high of 927p, reflecting more switching into the shares from disillusioned holders of Shell, apparently in the wake of a Charterhouse Tilney recommendation. Shell fell 5¼ to 359½p.

The two biggest exploration stocks in the London market, Enterprise Oil and Lasmo, were both lower, ending off 2 at 402p, and down 5¼ at 172¾p respectively.

Sears rejects bid

A report that Sears, the retailing group, had rejected a 225p a share or £400m takeover approach from N. Brown, the mail order group, transformed sentiment in the Sears stock price yesterday.

N. Brown had sought an agreed bid for Sears and was apparently unwilling to pursue a hostile bid for the company.

Sears finished 11 higher at 199p as retail specialists said the news would encourage further takeover speculation about the company. N. Brown shares dipped 5 to 280p.

Profit warnings were not confined to the smaller-company sector yesterday. FTSE 250 constituent Unigate, the food producer, came out with disappointing interims – profits were virtually unchanged on last time – and added to the market's discomfort by telling shareholders that its full-year numbers would be hard pressed to match those of last year because of "challenging conditions".

The market's response to the double dose of bad news was a steep decline in the Unigate share price, which finished the session 21¼ off at 502p. The Unigate news also unnerved other food stocks with Northern Foods, reporting this morning, 7½ off at 167½p.

International carrier British Airways moved against the strong market trend as dealers reflected on a negative note from Salomon Smith Barney.

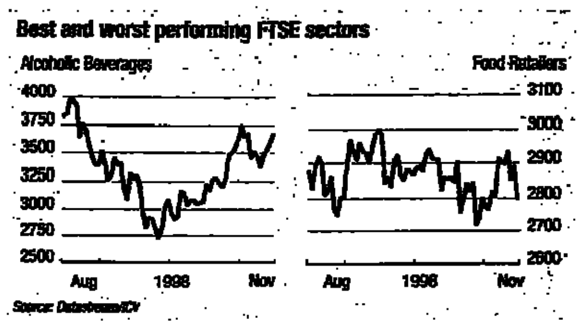
The US broker downgraded its rating on the stock to 3H (neutral high risk) from 2M (outperform-medium risk). It also slashed its target price on the stock from 500p to 440p. The shares closed 15½ lower at 382½p.

Mobile telephone company Vodafone was the best performer in the FTSE 100 index, adding 40¼ at 850¼p ahead of expected strong results today.

The shares were also lifted by news that the price range for the public offering of shares in Panafon, one of Greece's three mobile phone groups, had been substantially increased. Vodafone has a 55 per cent stake in Panafon and is not selling any of its shares.

Orange rose 9 to 601p. Cable & Wireless gained 22½ to 687¼ supported by a "buy" recommendation from Credit Suisse First Boston.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Nov 16	Nov 13	Nov 12	Nov 11	Nov 10	Yr ago	*High	*Low
FT 30	3324.4	3296.9	3289.1	3326.2	3291.7	3147.4	4004.9	2790.6
Ord. div. yield	3.17	3.20	3.20	3.17	3.19	3.61	4.22	2.72
P/E ratio net	21.15	20.97	20.94	21.15	21.00	20.39	25.41	15.80
P/E ratio nil	21.06	20.88	20.86	21.06	20.91	20.11	25.19	15.71

FT 30 since compilation: high 4004.9 15/07/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3296.9	3318.9	3317.6	3316.4	3323.2	3342.0	3329.9	3320.8	3343.9	3296.9

STOCK MARKET TRADING DATA

	Nov 16	Nov 13	Nov 12	Nov 11	Nov 10	Yr ago
SEAQ bargains	62,862	53,198	51,254	58,460	57,101	45,802
Equity turnover (£m)†	-	2347.8	2750.3	2728.4	2727.9	2457.7
Equity bargains†	-	41,851	42,188	45,578	46,728	38,989
Shares traded (m)†	-	653.1	691.0	702.4	750.7	773.2
Total market bargains‡	-	53,080	52,141	57,741	56,899	-
Total turnover (£m)‡	-	3131.9	3311.2	3671.1	3565.2	-
Total shrs traded (m)‡	*672.8	817.7	863.5	909.7	942.4	-
Tradepoint turnover (£m)	59.3	13.9	26.2	17.5	22.3	29.6
Tradepoint shrs traded(m)	54.0	6.1	8.6	7.8	10.2	13.2

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	894	Total Highs	32	Total contracts	31,347
Total Falls	572	Total Lows	46	Calls	18,714
Same	1,464			Puts	12,633

Nov 16 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5575.0	5545.0	+43.0	5590.0	5516.0	20829	193624
Mar	5615.0	5589.5	+44.0	5615.0	5611.0	205	14805
Jun	-	5635.0	+44.0	-	-	0	9430

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4852.0	+10.0	-	-	0	8482

■ FTSE 100 INDEX OPTION (LIFFE) (*5519) £10 per full index point — Nov 13

	5350 C	5350 P	5400 C	5400 P	5450 C	5450 P	5500 C	5500 P	5550 C	5550 P	5600 C	5600 P	5650 C	5650 P	5700 C	5700 P
Nov	186½	19	147	28½	111½	43½	80	62½	53½	86½	34½	118	20½	155½	11½	198
Dec	319½	125	282½	139	252	158½	223	179½	194	304	165	226½	143	254	122	284
Jan	402½	190½	376½	206½	341	226	311	247	281	266½	251½	290	223½	310	201½	337½
Feb	478	251½	448½	270½	418	289½	387½	309	357	328½	326½	348½	298	365½	273½	396½
Jun†	695	421½			574	458			512½	494½			465	538½		

Calls 4,147 Puts 1,431

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Nov 13

	5325 C	5325 P	5375 C	5375 P	5425 C	5425 P	5475 C	5475 P	5525 C	5525 P	5575 C	5575 P	5625 C	5625 P	5675 C	5675 P
Nov	218	16	168	24½	129½	35½	95½	51½	66	72	43½	99½	27½	133½	16½	172
Dec	330	120	304	135	276½	151	236½	167	208	186	178	205	156	235½	131½	260½
Jan	421½	182½	386½	198½	355	214½	324	233	291½	249½	264	272	237	294	211½	318½
Mar	547	288½			483	322½			418	355			358½	394½		
Jun†	684	388			623	421½			558½	460½			511	501½		

Calls 10,282 Puts 6,814 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div	Div cov	Grs yld	P/E net
–	F.P.	-	53½	48	Anglian Water B	51½		-	-	-	-
–	F.P.	3.50	85	65	†Chariot	70	+5	-	-	-	-
§	F.P.	6.10	117	107	Collective Assets Tst	117		-	-	-	26.3
–	F.P.	391.3	325½	229½	First Active	285½		-	-	-	17.2
–	F.P.	-	1¼	1¼	Five Arrows Chile	1½		-	-	-	-
–	F.P.		0.035	0.035	Do USD 0.00004167	0.035					
–	F.P.	-	1½	1¼	De Uns Ln 2049	1¼		-	-	-	-
§	F.P.	21.7	103	100½	Guinness Flt Grd ISG	102½		-	-	-	-
§	F.P.	6.41	108½	101	Do Inc	106	+½	-	-	-	-
§	F.P.	15.7	104½	100	Do Zero Div Prf	103½		-	-	-	-
§95	F.P.	14.7	65½	55½	†Honeycombe Leisure	65		-	-	-	10.3
–	F.P.	5.87	101½	100	INVESCO Rec Tst	101		PN9.05	-	9.5	-
–	F.P.	8.61	100¾	100¾	Do Zero Div Pref	100¼		-	-	-	-
§97	F.P.	7.05	103	79½	MSW Technology	86		-	-	-	13.0
–	F.P.	35.6	12½	10	Marley B	10½		-	-	-	-
§	F.P.	5.17	5½	4½	†Natural Bldg Mtls	5¼		-	-	-	-
§	F.P.	2.16	105	105	†Do Cnv Prf	105		-	-	-	-
–	F.P.	-	62½	50½	†Old Monk Company	53½		-	-	-	13.5
–	F.P.	7.48	93	90½	Piccadilly Grwth	90½		1.6	0.8	2.2	71.0
100	F.P.	-	103	95	REXAM B	97½		-	-	-	-
–	F.P.	-	15	14	Thistle Hts Nos Cm Pf	14½		-	-	-	-
–	F.P.	-	15	5	Xenova Wts	13½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Nov 13	% chg on day	Nov 12	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (26)	1130.63	1.0	1119.86	1118.67	1.82	1132.94	1351.57	701.88
■ Regional Indices								
Africa (6)	1213.47	8.2	1121.11	1132.71	3.33	1218.37	1488.84	765.63
Australasia (9)	1309.47	3.5	1264.69	1134.25	2.34	1314.21	1600.53	815.93
Americas (11)	1081.27	-2.6	1110.00	1125.36	0.68	1082.18	1317.41	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 16	Day's chge%	Nov 13	Nov 12	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5510.5	+0.9	5463.2	5449.0	4867.0	2.93	2.50	1.97	21.62	133.96	2436.09
FTSE 250	4835.6	+0.2	4826.4	4845.2	4625.8	3.66	3.10	2.14	15.98	122.96	2096.10
FTSE 250 ex Inv Tr	4865.7	+0.1	4862.3	4883.2	4665.4	3.80	3.23	2.21	14.88	127.47	2117.88
FTSE 350	2623.2	+0.8	2603.6	2599.7	2349.4	3.05	2.60	2.01	20.41	64.22	2369.58
FTSE 350 ex Inv Tr	2629.2	+0.7	2609.8	2605.8	2352.9	3.07	2.62	2.02	20.20	64.74	1218.28
FTSE 350 Higher Yield	2546.3	+0.5	2534.1	2519.9	2336.1	4.06	3.44	1.93	15.94	81.30	1972.27
FTSE 350 Lower Yield	2696.7	+1.0	2668.6	2676.6	2374.7	1.98	1.70	2.17	29.16	49.26	1973.76
FTSE SmallCap	2067.24	—	2067.08	2065.69	2288.08	4.01	3.27	1.98	15.78	54.93	1819.32
FTSE SmallCap ex Inv Tr	2027.62	-0.2	2031.35	2030.12	2298.32	4.35	3.55	2.07	13.85	58.11	1804.38
FTSE All-Share	2536.44	+0.7	2518.44	2514.73	2299.43	3.10	2.64	2.00	20.12	62.33	2325.33
FTSE All-Share ex Inv Tr	2545.36	+0.7	2527.59	2523.74	2304.53	3.12	2.66	2.02	19.82	63.09	1200.69

■ *FTSE* Actuaries Industry Sectors

	Nov 16	Day's chge%	Nov 13	Nov 12	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(26)	4232.43	-0.2	4242.61	4164.82	4627.05	3.52	3.14	1.51	23.43	132.12	1974.85
12 Extractive Industries(5)	2691.66	-0.6	2706.63	2736.54	3154.15	5.08	4.68	1.99	12.37	126.49	866.88
15 Oil, Integrated(3)	4877.82	-0.2	4886.97	4779.24	5061.18	3.39	3.00	1.45	25.41	145.75	2840.57
16 Oil Exploration & Prod(11)	2129.23	-0.4	2138.49	2098.05	3821.27	2.58	2.25	0.96	50.61	46.95	1332.67
20 GEN INDUSTRIALS(211)	1724.14	+0.1	1721.88	1731.18	1984.29	4.25	3.75	2.22	13.22	58.69	1029.46
21 Construction(38)	1274.21	-0.2	1276.59	1276.65	1354.78	4.02	3.25	2.96	10.51	38.11	1153.76
22 Building Matls & Merchs(26)	1548.66	-1.2	1567.93	1584.09	1795.27	4.84	4.18	2.12	12.20	56.57	858.81
23 Chemicals(23)	1996.49	+0.4	1989.37	1994.25	2368.26	4.59	4.30	1.76	15.45	72.95	1037.43
24 Diversified Industrials(6)	1082.09	-1.6	1099.57	1125.79	1299.85	5.12	4.86	2.10	11.59	57.13	685.46
25 Electronic & Elect Equip(26)	2452.03	+0.5	2439.92	2416.49	2227.89	3.13	2.54	1.85	21.55	60.32	1373.40
26 Engineering(55)	2194.67	+0.5	2183.33	2209.57	2684.89	4.40	3.90	2.23	12.74	79.00	1440.74
27 Engineering, Vehicles(10)	3147.04	+1.3	3107.31	3106.40	3384.45	2.84	2.60	3.27	13.49	75.72	1752.68
28 Paper, Pckg & Printing(22)	1485.40	-0.2	1487.73	1495.74	2159.58	6.21	5.68	2.46	8.19	68.02	682.54
30 CONSUMER GOODS(91)	5722.45	+1.4	5643.36	5657.39	4553.22	2.39	2.16	1.93	27.07	127.90	2286.94
32 Alcoholic Beverages(6)	3666.76	+2.2	3589.29	3531.73	3327.54	3.39	3.15	2.13	17.26	136.98	1469.43
33 Food Producers(27)	3768.49	+0.7	3740.47	3747.57	3212.39	2.40	2.07	2.42	21.80	82.59	1843.34
34 Household Goods & Texts(22)	2354.31	—	2354.94	2596.49	2885.29	4.45	3.96	1.78	15.76	89.97	1009.49
36 Health Care(13)	2447.16	+1.0	2422.32	2431.75	2158.21	2.12	1.96	2.18	27.03	46.87	1579.86
37 Pharmaceuticals(20)	9757.41	+1.6	9605.63	9626.09	7135.21	1.81	1.69	1.59	43.42	165.24	3516.16
38 Tobacco(3)	6980.78	+1.1	6902.33	6923.25	4566.27	4.85	4.05	2.04	12.61	210.91	1978.28
40 SERVICES(260)	3241.56	+0.2	3234.37	3224.22	2802.96	2.69	2.21	2.09	22.21	62.21	1798.66
41 Distributors(29)	1865.66	+0.1	1862.96	1862.94	2535.59	5.31	4.39	2.01	11.73	73.51	745.65
42 Leisure & Hotels(28)	2909.07	-1.4	2949.12	2951.27	3168.82	3.24	2.71	2.62	14.71	79.87	1661.92
43 Media(36)	4066.07	-0.1	4070.17	4057.37	4091.24	2.57	2.16	2.16	22.53	84.32	1552.89
44 Retailers, Food(13)	2800.61	-3.0	2888.54	2855.55	2700.35	3.28	2.82	2.16	17.63	68.90	1928.89
45 Retailers, General(49)	2019.84	-0.1	2022.42	2030.91	2313.05	3.78	3.03	2.10	15.71	59.06	1248.35
46 Telecommunications(8)	4743.68	+1.6	4669.23	4638.19	2558.38	1.88	1.54	1.85	40.07	47.70	2326.72
47 Breweries, Pubs & Rest.(24)	3392.83	-1.3	3436.41	3381.04	3341.39	3.64	2.92	2.37	14.48	71.77	1745.51
48 Support Services(65)	4125.35	+1.5	4064.44	4116.91	3329.29	1.84	1.38	2.48	30.72	49.11	2732.67
49 Transport(25)	3418.11	+0.7	3395.13	3375.34	2937.43	3.12	2.64	2.02	19.83	83.78	1542.75
60 UTILITIES(21)	4355.55	+0.2	4347.51	4319.76	3264.84	3.74	3.09	1.75	19.11	101.47	2106.18
62 Electricity(8)	4815.38	+0.3	4799.92	4741.81	3574.86	4.24	3.39	1.85	15.91	113.98	2847.99
64 Gas Distribution(2)	3495.73	+0.9	3463.85	3465.25	2395.37	1.93	1.95	‡	‡	54.02	2037.67
68 Water(11)	3698.28	-0.8	3728.20	3728.58	3067.97	4.67	4.10	2.36	11.35	112.14	2314.59
69 NON-FINANCIALS(623)	2606.86	+0.5	2595.06	2588.20	2340.69	3.00	2.58	1.97	21.14	61.77	2146.53
70 FINANCIALS(104)	4744.04	+1.5	4676.59	4684.47	4406.59	3.47	2.88	2.16	16.65	134.84	2219.22
71 Banks, Retail(12)	7007.80	+1.6	6895.48	6874.53	6512.25	3.65	2.92	2.12	16.16	199.47	2482.46
73 Insurance(15)	2093.73	+1.9	2054.53	2090.42	1892.81	3.37	3.18	2.01	18.42	77.07	1755.06
74 Life Assurance(6)	6804.01	+1.4	6710.40	6775.96	5381.76	2.83	2.45	2.70	16.33	167.30	3067.21
77 Other Financial(25)	3504.80	+0.7	3479.98	3504.38	3273.80	3.09	2.54	2.58	15.69	97.86	2159.24
79 Property(44)	1771.47	-0.1	1774.07	1771.20	2139.85	3.78	3.17	1.61	20.74	41.82	1173.28
80 INVESTMENT TRUSTS(119)	3445.20	+1.1	3408.34	3407.85	3267.57	2.36	1.92	1.18	44.97	58.91	1284.46
89 FTSE All-Share(842)	2536.44	+0.7	2518.44	2514.73	2299.43	3.10	2.64	2.00	20.12	62.33	2325.33
105 FTSE All-Share ex Inv Tr(727)	2545.36	+0.7	2527.59	2523.74	2304.53	3.12	2.66	2.02	19.82	63.09	1200.68
Information Technology	1230.84	+0.9	1219.55	1220.38	–	0.76	0.61	4.08	40.30	6.95	1236.94
FTSE Fledgling	1137.39	+0.1	1136.41	1135.45	1255.33	3.86	3.16	1.42	22.80	32.34	1277.37
FTSE Fledgling ex Inv Tr	1142.16	-0.1	1143.17	1142.41	1275.78	4.21	3.47	1.52	19.55	36.06	1289.46
FTSE AIM	828.4	+1.0	820.4	822.4	984.1	1.15	0.91	0.51	80.00†	9.35	769.73

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5472.1	5516.6	5505.4	5514.5	5513.9	5534.8	5524.6	5515.2	5540.7	5472.1
FTSE 250	4832.2	4834.1	4833.1	4836.9	4837.2	4832.8	4837.0	4836.9	4839.1	4831.0
FTSE 350	2607.7	2625.4	2620.9	2624.9	2624.7	2632.5	2628.9	2625.1	2634.9	2607.7
FTSE SmallCap	2070.67	2068.88	2068.19	2068.97	2068.97	2066.85	2068.85	2067.82	2070.91	2067.13
FTSE All-Share	2522.40	2538.62	2534.43	2538.10	2537.92	2545.15	2541.77	2538.20	2547.48	2522.40

Time of FTSE 100 Day's high: 9:07:45 Day's low: 9:03:00. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's High: 9:08:00 Day's low: 9:03:00. FTSE All-Share 1998 High: 2685.20 (20/07/98) Low: 2166.10 (05/10/98)

Further information is available on http://www.ftse.com.

 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Bilton (FTSE SmallCap).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	162	548	+5
AMVESCAP	1,600	429	-2
ASDA Group	4,400	157	-5½
Abbey National	4,100	1225	+46
Alliance & Leicester	1,600	800	+12
Allied Domecq	839	507	[illegible]
Allied Zurich	4,900	730	+25
Anglian Water†	1,000	[illegible]	-5½
Assoc. Brit. Foods	909	690	-3
BAA	1,900	681	+13
BOC	759	848	-8
BG	8,200	407	+8
BP	22,900	922	+6
BSkyB	3,600	495½	+5½
BT	7,500	828	-2
BTR	8,600	108	+1
Bank of Scotland	3,700	806	-8
Barclays	4,600	1240	+30
Bass	1,600	790½	-21½
Billiton	2,400	137¼	[illegible]
Boots	812	973½	+10
Britannic Assurance†	47	1250	+20
Brit. Aerospace	4,500	482	+10
British Airways	5,300	382½	-15½
Brit. Amer. Tobacco	6,800	538	+14½
British Energy	2,700	641	-4
British Land	1,600	512	-8
CGU	1,700	925	+17
CMG†	864	1480	+20
COLT Telecom	1,300	872	+7
Cable & Wireless	4,100	687½	+22½
Cadbury Schweppes	1,000	895	+9
Carlton Comms.	1,400	428	-16
Centrica	5,300	115½	-7½
Compass	974	621	+6
Diageo	4,100	665	+20
EMI	1,400	350	-2½
Dixons†	1,400	838	+24½
Foreign & Col. I T	413	177	+1½
General Electric	2,800	482	+2
Gallaher†	248	448	-2
Glaxo Wellcome	4,400	1850	+25
Granada	2,000	898	-22
GUS	695	623	+4½
GRE	3,000	275	-8
GKN	1,100	872	+10
HSBC (75p shs)	2,500	1486	+47
HSBC (HK$10)	1,300	1416	+30
Halifax	6,000	822	-5
Hays	1,700	469	-11
ICI	892	590	+5
Imperial Tobacco†	2,500	679	-9
Kingfisher	2,800	534	-28
Ladbroke	3,600	220½	-7½
Land Securities	852	845	[illegible]
Legal & General	[illegible]	695½	+33¼
Lloyds TSB	10,300	785½	[illegible]
LucasVarity	676	208	+1½
Marks & Spencer	6,400	440	
Misys	1,700	388	+8
NatWest Bank	4,500	950	+27½
National Grid	3,900	440	+15
National Power	4,900	541	-8
Norwich Union	6,000	429	+14
Nycomed Amersham	2,900	409	+14
Orange	3,000	601	+9
Pearson	2,100	985	-15
P & O	2,600	815	+25
PowerGen	3,600	808	-11
Prudential	3,400	892	-17
Railtrack	1,300	1710	-24
Reckitt & Colman	1,600	800	
Reed Intl.	3,300	482	-3
Rentokil Initial	4,800	378½	+10½
Reuters	2,900	604	+2
Rio Tinto	3,600	808	-8
Rolls Royce	8,300	230	+6
Royal & Sun Alliance	4,300	491½	+9
Royal Bank Scotland	1,700	785	+3
Safeway	1,900	282½	-½
Sainsbury	4,400	510	-20
Schroders	116	1130	+24
Schroders N/V	65	989	+37
Scottish & Newcastle	571	735	-44½
Scottish Power	3,000	545	+5
Securicor	1,100	484	-4
Sema	1,600	489	+8
Severn Trent	672	1075	-34
Shell Transport	13,100	359½	-5¼
Siebe	7,200	213	+4
SmithKline Beecham	9,200	739½	+19½
Smiths Inds.	1,100	797	+13
Southern Electric	174	606½	+5½
Stagecoach	1,600	228	-7
Standard Chartered	1,600	619	-1
Sun Life & Provincial	1,500	520	+23
TeleWest Comms.	3,000	130	-2
Tesco	12,900	171½	+7
Thames Water	339	1138	-10
Tomkins	2,600	273	-3½
Unilever	3,700	636½	+11½
Utd. News & Media	815	637½	-12½
United Utilities	835	808	+8
Vodafone	6,800	850½	+40½
WPP	2,700	328	-9
Whitbread	333	785	-15
Williams	676	371¼	-1
Woolwich	1,800	367	+1½
Zeneca	2,300	2285	+9

Based on trading volume for the FTSE 100 constituent companies and Misys yesterday until 4.30pm. † Indicates a FTSE 100 index riser. All trades are rounded. Source: Extel, part of FT Information.

صكرا من الاجيال

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 16 / Sch)

BELGIUM/LUXEMBOURG (Nov 16 / Frs.)

CZECH REP (Nov 16 / Koruna)

DENMARK (Nov 16 / Kr)

FINLAND (Nov 16 / Mks)

FRANCE (Nov 16 / Frs.)

GERMANY (Nov 16 / Dm.)

GREECE (Nov 16 / Drachma)

IRELAND (Nov 16 / Punt)

ITALY (Nov 16 / Lira)

NETHERLANDS (Nov 16 / Fls.)

NORWAY (Nov 16 / Kroner)

POLAND (Nov 16 / Zloty)

PORTUGAL (Nov 16 / Escudo)

SPAIN (Nov 16 / Pts.)

SWEDEN (Nov 16 / Kronor)

SWITZERLAND (Nov 16 / Frs.)

TURKEY (Nov 16 / Tk Lira)

PACIFIC

JAPAN (Nov 16 / Yen)

AUSTRALIA (Nov 16 / Aust$)

HONG KONG (Nov 16 / H.K.$)

INDONESIA (Nov 16 / Rupiah)

MALAYSIA (Nov 16 / MYR)

NEW ZEALAND (Nov 16 / NZ $)

SINGAPORE (Nov 16 / S$)

SOUTH KOREA (Nov 16 / Won)

TAIWAN (Nov 16 / TW $)

THAILAND (Nov 16 / Baht)

AMERICAS

CANADA

TORONTO (Nov 16 / Can $)
4 pm close

MONTREAL (Nov 16 / Can $)
4 pm close

MEXICO (Nov 16 / Peso)
12.30pm

AFRICA

SOUTH AFRICA (Nov 16 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 13 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY NOVEMBER 12 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	197.92	0.5	176.17	152.91	173.81	205.89	-0.8	3.63	196.91	176.62	154.18	173.28	207.64	219.96	163.86	204.09
Austria (22)	179.95	-0.3	160.18	139.03	158.03	157.92	-0.5	2.21	180.45	161.85	141.29	158.80	158.68	253.73	166.45	186.93
Belgium (22)	367.33	0.4	326.97	283.80	322.58	315.65	0.2	2.14	365.74	328.05	286.37	321.85	314.96	398.52	245.07	245.07
Brazil (32)	151.95	1.8	135.26	117.40	133.44	333.01	1.8	2.87	149.28	133.90	116.88	131.37	327.17	269.34	102.68	189.34
Canada (119)	190.89	1.3	169.92	147.49	167.64	214.48	1.5	1.85	188.43	169.02	147.54	165.82	211.37	248.78	159.94	212.25
Denmark (34)	467.03	0.4	415.72	360.83	410.14	408.05	0.2	1.71	465.17	417.24	364.22	409.35	407.12	537.33	408.26	408.26
Finland (26)	438.46	-0.3	390.29	338.75	385.05	472.68	-0.5	1.93	439.85	394.62	344.48	387.16	475.23	506.46	267.59	298.37
France (75)	294.63	0.8	262.26	227.63	258.74	261.83	0.4	2.39	292.88	262.68	229.30	257.72	260.75	345.16	222.08	223.42
Germany (55)	258.78	0.2	228.55	198.37	225.48	225.48	0.0	1.43	256.26	229.86	200.65	225.51	225.51	325.61	211.20	211.20
Greece (35)	275.17	0.2	244.94	212.59	241.65	560.12	0.3	1.55	274.52	246.23	214.95	241.58	558.42	333.20	211.47	-
Hong Kong, China (67)	309.89	0.7	275.84	239.42	272.14	308.08	0.7	4.25	307.72	276.01	240.94	270.80	305.91	389.07	196.64	331.80
Indonesia (26)	43.06	1.5	38.33	33.27	37.81	203.40	-2.3	1.56	42.42	38.05	33.22	37.33	208.19	113.69	19.04	112.41
Ireland (16)	469.57	0.6	417.98	362.79	412.37	449.06	0.4	2.11	466.66	418.58	365.39	410.67	447.13	560.44	373.78	374.24
Italy (58)	153.51	0.3	136.65	118.60	134.81	191.60	0.1	1.45	153.03	137.26	119.82	134.67	191.38	184.49	106.77	106.77
Japan (446)	93.88	2.5	83.57	72.53	82.45	72.53	1.1	1.04	91.64	82.20	71.75	80.64	71.75	109.73	76.83	98.60
Mexico (29)	1144.34	-0.1	1018.62	884.11	1004.95	12506.58	-0.7	2.04	1145.42	1027.40	896.86	1007.98	12581.09	1803.07	787.15	1460.17
Netherlands (27)	463.90	0.1	412.93	358.41	407.39	403.32	0.0	2.31	463.20	415.47	362.68	407.62	403.48	562.38	391.03	398.74
New Zealand (18)	59.50	0.4	52.96	45.97	52.25	58.76	-1.0	4.91	59.28	53.15	46.40	52.15	59.36	85.33	45.68	83.98
Norway (38)	228.00	0.8	202.96	176.16	200.23	232.20	0.3	2.59	226.11	202.81	177.04	198.98	231.53	357.71	181.86	340.55
Philippines (22)	74.76	-0.2	66.55	57.76	65.65	150.89	-0.9	1.03	74.90	67.18	58.65	65.91	152.29	108.98	42.48	86.01
Portugal (18)	245.47	1.3	218.50	189.66	215.57	291.11	1.2	1.11	242.31	217.35	189.73	213.24	287.68	298.39	194.13	-
Singapore (41)	179.45	1.6	159.73	138.64	157.59	136.65	1.2	2.31	176.60	158.40	138.28	155.41	135.01	264.82	102.45	242.28
South Africa (39)	207.07	0.6	184.32	159.98	181.84	260.02	0.5	3.58	205.77	184.56	161.11	181.08	258.63	346.20	151.55	280.87
Spain (30)	352.88	-1.5	314.09	272.62	309.87	384.10	-1.6	2.06	358.31	321.39	280.56	315.32	390.50	417.73	244.47	244.47
Sweden (46)	460.28	-0.3	409.71	355.61	404.21	554.47	0.0	2.11	461.67	414.10	361.49	406.28	554.68	628.19	379.16	467.43
Switzerland (30)	383.18	-0.5	341.08	296.04	336.51	330.61	-0.7	1.29	384.91	345.25	301.38	338.72	332.86	439.48	307.73	306.95
Thailand (35)	19.34	-0.6	17.22	14.94	16.99	27.66	-1.0	3.42	19.46	17.45	15.24	17.12	27.94	33.84	8.15	30.98
United Kingdom (208)	354.49	1.0	315.54	273.88	311.31	315.54	0.2	3.11	351.04	314.87	274.87	308.92	314.87	401.84	307.86	315.23
USA (620)	460.77	0.7	410.15	365.99	404.64	460.77	0.7	1.41	457.80	410.62	358.45	402.86	457.80	485.88	373.16	373.16
Americas (800)	410.43	0.7	365.34	317.10	360.44	348.19	0.7	1.44	407.68	365.67	319.21	358.76	345.85	437.03	338.93	338.93
Europe (737)	327.89	0.4	291.87	253.33	287.95	296.62	0.0	2.25	326.71	293.04	255.81	287.51	298.63	386.24	272.02	272.02
Eurobloc (346)	94.02	0.2	83.69	72.64	82.57	89.37	0.0	1.92	93.86	84.19	73.49	82.60	89.39	113.28	81.53	-
Nordic (146)	433.11	-0.1	385.53	334.62	380.35	439.58	-0.1	2.03	433.54	388.87	339.46	381.52	438.91	555.97	380.04	411.97
Pacific Basin (730)	102.00	2.1	90.79	78.80	89.57	80.67	0.8	1.62	99.83	89.64	78.25	87.94	80.00	119.48	82.88	109.61
Euro-Pacific (1467)	195.86	0.9	174.34	151.32	172.00	162.36	0.2	2.06	194.18	174.17	152.04	170.88	161.97	220.19	166.00	177.38
North America (739)	442.61	0.7	393.98	341.96	388.69	443.65	0.7	1.43	439.65	394.34	344.24	386.89	440.87	469.20	363.11	363.11
Europe Ex. UK (529)	303.94	0.1	270.55	234.82	266.91	281.48	-0.1	1.83	303.75	272.45	237.83	267.30	281.79	366.32	242.57	242.98
Europe Ex. Eurobloc (391)	90.36	0.6	80.43	69.81	79.35	89.39	0.0	2.60	89.85	80.59	70.35	79.07	89.38	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (183)	90.47	-0.3	80.63	69.90	79.45	87.43	-0.4	1.56	90.73	81.38	71.04	79.84	87.78	109.21	75.16	-
Pacific Ex. Japan (284)	178.34	0.7	158.75	137.78	156.62	180.59	-0.1	3.79	177.18	158.93	138.73	155.92	180.73	217.77	128.28	207.85
World Ex. Eurobloc (1960)	96.53	0.9	85.82	74.58	84.77	95.67	0.6	1.69	95.70	85.84	74.93	84.21	95.12	103.16	83.09	-
World Ex. US (1686)	195.95	0.9	174.42	151.39	172.08	167.42	0.3	2.07	194.24	174.23	152.09	170.93	166.92	221.91	165.95	180.98
World Ex. UK (2098)	274.35	0.7	244.21	211.96	240.93	245.97	0.5	1.57	272.35	244.29	213.25	239.67	244.70	298.02	234.66	235.95
World Ex. Japan (1860)	374.52	0.6	333.37	289.35	328.90	364.30	0.4	1.80	372.41	334.03	291.59	327.72	362.78	411.23	315.06	315.06
The World Index (2306)	281.22	0.8	250.33	217.27	246.97	252.39	0.5	1.72	279.11	250.35	218.54	245.62	251.17	308.56	242.08	242.69

Emerging markets:

IFC investable indices

Dollar terms

Nov 13 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	863.34	+1.6	-22.6
Brazil	305.17	+1.1	-38.8
Chile	480.01	-0.6	-25.3
Colombia[1]	378.78	+5.0	-54.4
Mexico	485.19		-38.4
Peru[2]	139.79	+2.3	-36.9
Venezuela[3]	338.32		-63.0
East Asia			
China[4]	30.10	-0.6	-45.6
India[7]	62.83	-0.8	-24.8
Indonesia[4]	21.31	+3.3	-35.7
Korea[5]	32.54	+0.2	+35.4
Malaysia	73.93	+1.0	-18.9
Pakistan[6]	90.62	-1.9	-63.5
Philippines	106.18	-0.2	-5.8
Sri Lanka[8]	67.70	+0.5	-41.8
Taiwan, China[9]	117.74	+3.4	-18.5
Thailand	59.07	+0.4	+25.6
Europe			
Czech Rep	47.80	+0.1	-12.6
Greece	497.90	+0.2	+53.7
Hungary[10]	253.67	+1.9	-19.4
Poland[11]	527.82	-0.4	-11.6
Portugal	276.62	+1.2	+31.1
Russia	22.53	-1.0	-84.8
Slovakia	40.64	-3.6	-59.0
Turkey[12]	128.15	-0.2	-58.9
Mideast/Africa			
Egypt	65.66		-29.6
Israel	93.51	+0.9	-23.2
Jordan	205.98	+0.1	-2.0
Morocco	171.22	+0.2	+31.4
S Africa[13]	137.69	+0.5	-23.4
Zimbabwe[14]	96.71	+1.2	-61.6
Regions			
Composite	180.25	+0.7	-28.7
Latin America	440.32	+0.6	-35.0
Asia	92.20	+1.3	-14.4
EMEA	110.50	+0.5	-25.2
Europe	133.11	+0.5	-29.4
Eastn Europe	53.22	+0.3	-60.7
ME & Africa	58.87	+0.5	-20.8
Comp + Malay	181.22	+0.7	-26.3
Asia + Malay	92.53	+1.2	-14.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1993; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993

Latest values were unavailable for this edition.

4 pm close November 16

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1998 High	1998 Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev. Close
118½	66⅜	Xerox	1.44	1.4	73	10885	101⅝	99½	101½	+1⅜
69⅝	37½	Xtra Corp			12	840	45⅝	44⅞	45	
31⅛	22½	Yankee Egy	1.38	4.5	24	50	31¼	31	31	
52⅞	27½	York Int	0.48	1.2	23	1021	41⅝	40⅞	41⅛	
24⅝	6⅛	Zapata			2	606	8⅛	8⅛	8⅛	
30½	23	Zenith Nat x	1.00	4.3	17	16	23⅜	23¼	23⅜	
8⅝	5⅛	Zemex Inc	0.70	10.8		67	6⅝	6½	6⅝	
14⅝	6⅜	ZweigFdA	1.08	9.7		338	11⅛	11⅛	11⅛	
9⅝	8⅛	Zweig Tot x	0.84	9.5		438	8⅝	8⅝	8⅝	+1/16

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial. d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

THE NASDAQ

هكذا عن الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8919.59	8829.74	8823.82	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.48	106.35†	106.01	107.02 (5/10)	104.42 (11/5)	107.02 (5/10/98)	54.99 (1/10/81)
Transport	2871.30	2842.38	2830.74	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	306.87	305.62	305.44	320.51 (8/10)	282.68 (9/1)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 8982.16 (8951.26) Low 8782.62 (8733.70) (Theoretical‡)
Day's high 8925.51 (8905.78) Low 8828.84 (8818.94) (Actual‡)

Standard and Poors	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1125.72	1118.17	1120.97	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials¶	1345.14	1340.10	1344.28	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial¶	121.10	118.54	118.97	147.89 (14/7)	95.80 (8/10)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	556.17	552.58	553.38	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.54 (25/4/42)
Amex Comp	666.36	665.88	663.81	763.87 (22/4)	563.75 (8/10)	763.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1847.99	1851.06	1862.11	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	389.36	392.20	393.47	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Nov 13	Nov 6	Oct 30	Year ago
Dow Jones Ind. Div. Yield	1.69	1.68	1.75	1.78
	Nov 11	Nov 4	Oct 28	Year ago
S & P Ind. Div. yield	1.29	1.30	1.36	1.56
S & P Ind. P/E ratio	32.98	32.70	31.32	24.36

US DATA

MARKET ACTIVITY

Volume (million)	Nov 13	Nov 12	Nov 11
NYSE	602.270	667.283	715.759
Amex	18.643	21.509	27.058
NASDAQ	811.646	802.998	939.853

NYSE	Nov 13	Nov 12	Nov 11
Issues Traded	3,479	3,513	3,499
Rises	1,502	1,343	1,197
Falls	1,480	1,664	1,790
Unchanged	497	506	512
New Highs	41	42	39
New Lows	19	25	21

NYSE TRADING ACTIVITY

Volume : 614,787,818

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
PhMorr	9,899,400	53¼	-⅛
Compaq	7,283,300	34⅝	+⅛
Citigrp	7,295,800	44¼	+⅛
AmOnLne	5,955,900	146⅝	+6½
AmHome	5,101,300	47⅞	+⅛
Motorola	4,968,200	40⅛	+2
Nikrola	4,858,000	57⅝	+2⅛
HewPac	4,638,900	66	+⅛
BankAm	4,531,700	58⅛	+1⅝
LucentTch	4,418,300	85⅛	+1⅝

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Callmat Co	30¼	+3⅛	+12.6
Pier 1 Imp	10⅝	+⅞	+9.2
Honda ADR	71⅞	+4¾	+7.1
Saks	27⅝	+1⅝	+6.0
Downs			
TempltEmMk	10⅛	-3⅛	-25.2
Best Cost	15⅞	-2	-11.4
OrSb	17⅛	-1⅛	-8.2
EngyVntrs	21⅛	-1⅞	-8.2

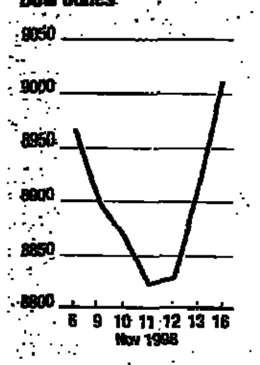
NASDAQ TRADING ACTIVITY

Volume :750,311,987

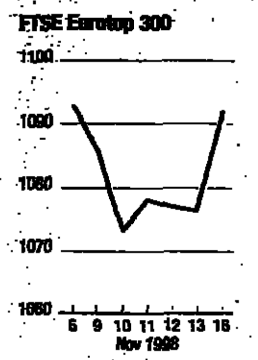
ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
DellComp	31,745,200	63⅛	-¾
HBO & Co	18,479,800	22⅛	-⅞
Lycos	12,578,400	59¾	+9¾
Intel	12,078,600	106⅝	+3¾
AppMat	11,095,400	36⅛	-1⅞
Micsft	10,283,000	106⅞	-1⅛
CiscoSys	9,878,500	68⅞	+2¼
TCI GpA	7,573,500	38¼	-⅛
WrldCm	7,374,200	55	+½
Oracle	7,011,800	32⅛	-¾

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Tel-Save	12⅞	+2⅛	+20.3
Lycos	59¾	+8¾	+16.9
CNET	57	+7⅛	+14.7
OptCblCp	15	+1⅞	+14.3
EarthShell	16⅞	+2⅛	+13.8
Downs			
Labone	13¼	-2⅛	-15.0
Metris	31½	-3¼	-10.0
Cal Micro	11⅞	-1¼	-8.7

Dow Jones



FTSE Eurotop 300



JAPAN

	Nov 16	Nov 13	Nov 12	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	14428.27	14268.21	14075.05	17264.34	12879.97	38915.9	85.25

Day's high: 14450.58. Day's low: 14255.13

TOKYO TRADING ACTIVITY

Volume : 443,000,000

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
FujitCp	19,157,000	90	+22
Sakura	12,466,000	354	+4
Chyoda	12,073,000	260	+34
AokiCp	10,168,000	76	+7
Tshiba	8,496,000	625	+17
MitsMtr	8,454,000	301	+23
SumBnk	7,409,000	1328	+41
FujiBk	7,065,000	619	-6
NpStl	6,833,000	224	+2
Haseko	5,926,000	60	+4

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
FujitCp	90	+22	+32.4
Chyoda	260	+34	+15.0
IshikwS	264	+28	+11.9
ShokJt	68	+7	+11.5
Ishika	420	+40	+10.5
AokiCp	76	+7	+10.1
KonGumi	98	+9	+10.1
Downs			
Kokuyo	1611	-89	-5.2

GERMANY

	Nov 16	Nov 13	Nov 12	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4783.77	4639.65	4639.89	6171.43	3396.09	6171.43	531.18

Day's high: 4783.77 Day's low: 4639.50

FRANKFURT TRADING ACTIVITY

Volume : 11,410,620

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
BASF	543,740	65.6	+2.2
Bayer	535,737	68.4	+2.9
H'chst	501,405	79.1	+4.2
Dt Tel	437,255	47.8	+3
Lufthn	434,872	35.3	+1.5
Commzbk	404,714	53.1	+1.1
Siemens	389,471	114.9	+3.6
Dt Bk	347,813	101.5	+2.45
Veba	272,326	89.4	+2.7
DrsdBk	269,872	61.5	+1.1

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
SGLCar	116	+10	+9.4
Dt Tel	47.8	+3	+6.7
DmlrChrysl	141	+8.5	+6.4
H'chst	79.1	+4.2	+5.6
ZnPpap	142.5	+7.5	+5.6
KaliS	234	+12	+5.4
Downs			
Ernshm	23.7	-0.6	-2.5
Rheinm	43	-1	-2.3

FRANCE

	Nov 16	Nov 13	Nov 12	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3621.85	3562.23	3560.23	4388.48	2862.54	4388.48	984.61

Day's high: 3624.60. Day's low: 3594.68

PARIS TRADING ACTIVITY

Volume : 498,774,080

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
RhonPA	2,493,980	264.8	+8.7
FrTele	1,251,375	408.4	+18.4
Usinor	813,267	65.35	+1.35
ElfAqu	811,398	695	-18
Alctel	765,102	616	+24
Axa	610,126	632	+20
BNP	500,887	357	-8.7
Vivndi	453,237	1222	+14
MichlnB	452,577	230	+9.6
STMicro	434,018	369.3	-13.7

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
CapGem	573	+39	+7.3
LVMH	1065	+50	+4.9
Pinaut	1110	+52	+4.9
Moulnx	97.4	+4.4	+4.7
Downs			
ErBCtn	812	-56	-6.5
Finextel	470	-28	-5.6
Technip	535	-25	-4.5
TotalB	677	-27	-3.8

UK

	Nov 16	Nov 13	Nov 12	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5510.5	5463.2	5449.0	6179.00	4648.70	6179	986.9

Day's high: 5540.7 Day's low: 5463.2

LONDON TRADING ACTIVITY

Volume : 672,200,000

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Br Petroleum	21,093,250	922	+6
Shell	13,011,470	359½	-5¼
Tesco	12,823,360	171½	-7
Lloyds TSB	10,293,560	785½	+6½
Br Steel	10,142,880	107	-7½
SKline Bchm	9,101,403	730½	+19½
Emerald Ent	9,013,581	5½	+¼
BTR	8,780,217	106	+1
Rolls-Royce	8,495,622	230	+8
Br Telecom	7,413,901	820	-2

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
GR Hldgs	60	+17½	+41.2
Barbican Hlth	60½	+20½	+34.2
Abacus Rct	177½	+42½	+31.5
Dagenham Mtr	143½	+18½	+14.8
Downs			
Cropper LJ	153½	-38	-19.8
Renold	138½	-29	-17.3
Aitken&Harvey	155	-30	-16.2
Capital Inds	47½	-9	-15.9

INDEX FUTURES

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Dec	1134.80	1143.50	+10.20	1143.90	1134.70	70,144	399,492
Mar	1154.00	1155.00	+10.70	1155.00	1152.00	316	14,497
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	14430.0	14450.0	+130.0	14480.0	14200.0	24,479	186,496
Mar	14350.0	14320.0	+20.0	14400.0	14220.0	101	7,751

Open interest figures for previous day.

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Nov	3630.0	3627.5	+61.5	3644.0	3597.0	-	-
Dec	3622.0	3636.0	+61.5	3643.0	3618.0	-	78,589
DAX							
Dec	4750.0	4792.0	+127.0	4797.0	4616.0	17,241	79,665
Mar	4777.0	4835.5	+131.0	4835.5	4772.5	246	3,136

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
OMX							
Nov	650.00	650.00	+11.50	653.00	648.00	15,803	201 009
Dec	652.75	652.00	+11.50	654.50	651.00	5,721	19,475
SOFFEX							
Dec	6820.0	6790.0	+60.0	6847.0	6775.0	18,113	163,181
Mar	6825.0	6823.0	+66.00	6842.0	6815.0	73	4,966

WORLD MARKETS AT A GLANCE

Country	Index	Nov 16	Nov 13	Nov 12	1998 High	1998 Low	Yield	P/E
Hungary	Bux	5738.64	5632.09	5578.61	9016.36 23/4	3775.02 21/8	na	na
India	BSE Sens.	2945.40	2976.12	3009.57	4280.96 21/4	2764.16 20/10		
	Dollex	582.33	588.64	592.49	815.82 21/4	557.88 20/10	na	na
Portugal	BVL 30	4777.76	4659.94	4598.13	6176.80 22/4	3680.85 2/10	2.05	26.60
	PSI 20	10921.06	10674.68	10522.25	14292.80 22/4	8114.51 2/10		
Russia	RTS	59.54	59.32	60.53	411.61 5/1	38.53 5/10	na	na

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THE NASDAQ-AMEX MARKET GROUP

4 pm close November 16

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AMEX

4 pm close November 16

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EASDAQ

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STOCK MARKETS

Bulls stirred by optimism over US rate cut

WORLD OVERVIEW

Equity traders could hardly have wished for a better start to the week as investors anticipated the prospect of an interest rate cut after the US Federal Reserve open market committee meeting today, *writes Philip Coggan.*

The easing of tension in the Middle East, after Iraq's weekend climbdown, the latest Japanese economic stimulus package and renewed takeover and merger rumours in Europe – this time involving Hoechst and Rhône-Poulenc – all helped to improve sentiment.

But it was probably interest rate optimism that was the main motivator of the bulls, as it has been since markets first began to rally in early October.

A Reuters poll found that 22 out of 25 economists are expecting a quarter-point cut and their view will have been strengthened by US industrial output numbers out yesterday, which showed a 0.1 per cent fall in October.

A US rate cut would help not only the American economy but many emerging markets that have links, formal or informal, with the dollar. Asian markets were broadly stronger yesterday.

Geoffrey Dennis, global emerging market equity strategist at Deutsche Bank Securities, says the recent rally in Asian emerging markets may be more soundly based than the one in the first quarter of 1998. "Interest rates have come down since then and the market has discounted more of the economic bad news."

After Asia had given the day a good start, Europe picked up the baton, with Frankfurt particularly strong, as the Dax gained 3.1 per cent. Wall Street then continued the upward momentum, with the Dow Jones Industrial Average getting back above the 9,000 level in early trading.

Now that central banks have eased the credit crunch that worried the markets in September, the threat to corporate profits remains the main concern for investors. Forecasts for fourth-quarter 1999 earnings growth have been rapidly revised down, and the consensus, according to the information company IBES, is for 2.7 per cent year-on-year growth.

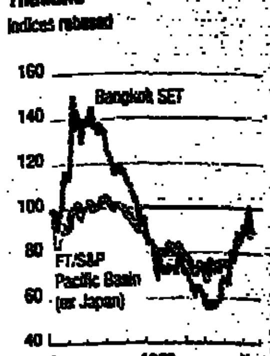
The forecasts for next year's earnings still look far too optimistic but the position may not be too bad, according to IBES's Joseph Abbott. "We do not see a 1999 reappearance of the domestic economic events that impacted 1998's earnings – 1999 is more likely to be a year of earnings recovery than a deepening profits recession.

"We expect that S&P 500 earnings growth will come in around 5-7 per cent next year, not too shabby, but certainly below analysts' forecasts of 17.5 per cent."

EMERGING MARKET FOCUS

Bangkok pays price for rally

Thailand
Indices rebased



Source: Datastream/ICV

Last week's 11 per cent decline in the Thai stock market, the largest such fall in Asia, was simply the price of success.

After the market's 82 per cent run-up since its 11-year low on September 4, some profit-taking was bound to set in. Even yesterday, the exchange began to claw its way back, taking heart from further rate cuts by banks and shrugging off some poor third-quarter reports to close up 3.5 per cent at 345.19 on the SET index.

Indeed if the market does creep back towards the psychologically and technically important 400-point resistance level, share prices are unlikely to be as volatile as recently, making it easier for institutional investors to sustain the rally.

This week the exchange started enforcing a rule limiting same-day trading – where local retail investors buy and sell the same stock on the same day – to 20 per cent of any broker's total trading volume.

"This will help curb volatility but it won't change the overall direction of the market," said Pattera Dilokrungthirapop, managing director of SG Asia Credit, noting that yesterday's gain was achieved on volume of Bt4.46bn, still healthy but only about half of what has been traded each session over the past months.

Whether the Thai market's gains can be sustained for the moment in spite of a continuing recession depends on domestic liquidity, brokers say. Deposit rates have fallen so fast – to around 6 per cent for a three-month deposit – that retail investors have regained their prominence, now accounting for three-quarters of trades.

"They don't care about the fundamentals but about the opportunity cost of keeping their money in the bank and not in the market," says one local broker.

But valuations, which foreign investors do look at, are now stretched. Russell Kopp, head of research at Dresdner Kleinwort Benson, notes that over the last two months "the best performing shares were probably some of the most insolvent public companies in Thailand".

But even a long-standing bear like Mr Kopp can't hold the line against liquidity. He says investors should look to add Thai stocks over the next 12 months, but reduce holdings short-term due to corporate valuations.

So barring any external shock, like a fall in the yen that could cause the Thai central bank to raise domestic rates to protect the baht, foreigners may yet join and sustain this rally with a vengeance – and for reasons as simple as liquidity.

"Institutional investors are very underweight Thailand right now. How are they going to brag to their shareholders in their year-end letters when Thailand is the region's best performer and they remain underweight?" asks David Connor, who yesterday lost his job as head of research in Thailand for a leading regional brokerage house. "In the next two months foreigners are going to have to come piling in."

A sacked broker calling a bull market. Things must be looking up.

Ted Bardacke

Dow climbs back above 9,000 level

AMERICAS

Wall Street raced higher in early trade, sending the Dow Jones Industrial Average back above the 9,000 level briefly in anticipation of an interest rate cut at today's Federal open market committee meeting, *writes John Labate in New York.*

But by early afternoon, the Dow had cut its early gains in half, with a rise of 51.49 to 8,971.08. The broader Standard & Poor's 500 index gained 6.17 to 1,131.89.

With an easing of tensions between the US and Iraq, the market moved its focus back onto interest rate policy. Early news of weaker-than-expected industrial production figures for October helped boost the consensus view that the FOMC would cut the key short-term Federal funds rate at today's meeting.

The strong comeback in equities in recent weeks, however, has taken some of the conviction out of the market. Some investors are expecting a weaker market no matter what the FOMC decision, with a sell-off after the recent rebound in stock buying.

"It's a no-win situation," said Larry Wachtel, market analyst at Prudential Securities in New York. "I think the market will sell into strength if there is a cut in rates, or sell off quickly if there isn't." Others were more concerned that the run-up in stock prices in recent weeks had little to do with the outlook for corporate earnings.

"We are expecting profits for the S&P 500 to be down next year so you need every bit of help from the Fed at this point," said A. Marshall Acuff, chief equity strategist at Salomon Smith Barney.

The high-tech and small-cap sectors also pushed ahead. The Nasdaq composite was up 11.10 to 1,859.09 and the Russell 2000 index of small-company shares was ahead by half-a-point to 389.86.

Some of the biggest movers came as analysts changed their outlooks for individual companies. In the semiconductor sector Micron Technologies plunged $2 1/16 or more than 4 per cent to $42 11/16 after analysts at Gruntal cut their rating.

Internet search company Lycos shot up 11.7 per cent or $6 to $57 after analysts at Merrill Lynch raised its rating to "strong buy".

Two high-flying internet-based initial public offerings from last week fell to earth, with theglobe.com down 24 per cent or $15 1/16 to $48 3/16. EarthWeb fell $4¾ or 7 per cent to $62¼.

TORONTO remained ahead by a small margin at midsession, held up by a firm showing in banks, with the TSE-300 composite index 10.71 higher at 6,346.80.

São Paulo jumps 4%

SAO PAULO rose strongly in early trading on the back of a firm Wall Street after falling 7 per cent last week. The Bovespa index was 320 or 4.2 per cent higher at 7,935 at midsession.

The strong opening in Brazil boosted **BUENOS AIRES**, the Merval index advancing 2.24 or 0.47 per cent to 474.32.

In **MEXICO CITY** a controversial budget bill subdued the market and the IPC index had advanced only 3.42 or 0.08 per cent to 4,011.04 by midsession.

Dealers said volume was thin as a result of caution over the potential impact of increased taxes and fuel prices proposed in the bill.

Johannesburg edges higher

SOUTH AFRICA

Johannesburg edged ahead, propped up by hopes for another cut in US interest rates. The overall index put on 22.9 to 5,753.6 as industrials climbed 60.7 to 6,601.7.

Golds, however, tumbled 33.1 to 1,010.1 as they mirrored bullion weakness at about $295 an ounce in response to an easing of Gulf tensions.

Hoechst rumour given new life

EUROPE

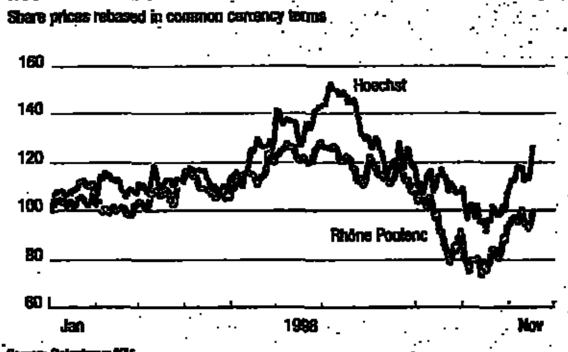
Fresh speculation about another tie-up in the European chemicals industry sent Germany's Hoechst and France's Rhône Poulenc soaring.

Rumours of a merger, creating the world's second largest pharmaceuticals maker after Merck of the US, have been rife for several weeks. Weekend press comment, in the wake of last week's planned link-up between Switzerland's Ciba and Clariant, fuelled matters.

Hoechst put on DM2.29 to DM78.30, after a high of DM81.26, as hopes grew that the group might have something to say about an engagement when it unveils third-quarter earnings today. Rhône Poulenc jumped FFr8.70 to FFr264.80, off a day's best of FFr274.80.

The FTSE Eurotop 300 index rose 15.30 or 1.42 per cent to 1,093.19. See Euro Prices page.

Hoechst and Rhône Poulenc
Share prices rebased in common currency terms



Source: Datastream/ICV

FRANKFURT shrugged off the weaker dollar to close sharply higher with the Xetra Dax index up 141.76 or 3.2 per cent at 4,785.76.

The speculation surrounding Hoechst lent support to much of the rest of the sector. BASF put on DM1.69 to DM65.19 and Bayer was DM2.58 ahead at DM68.40.

In the banking sector, HypoVereinsbank rose DM1.30 to DM121 after the supervisory board approved the management's proposal for a DM3.5bn provisioning increase to cover over-valued property interests. The board also expressed confidence in the bank's management board and its chief executive, Albrecht Schmidt. Commerzbank rose DM1.24 to DM53.22 and Dresdner put on DM1.58 to DM61.58.

DaimlerChrysler shares, listed on a when-issued basis, rose DM10.40 to DM140.90 ahead of the official debut today. BMW rose DM35.90 to DM1,110.05 and Volkswagen put on DM5.75 to DM131.35.

Metro, Europe's largest retailer, sharply higher on Friday on radical restructuring plans, ran into profit-taking. The shares eased 95 pfg to DM115.45.

PARIS was given a late boost by the Dow and the CAC 40 index closed with a rise of 59.62 to 3,621.85.

Oil stocks, higher last week, faced selling pressure in response to easing Iraqi tensions and falling energy prices. Elf lost FFr18 to FFr695 while Total fell FFr27 to FFr677.

Analysts noted that defensive stocks such as utilities and retailers had tended to step back to make way for oversold building materials and engineering issues as investors went bargain-hunting.

But by the close, Vivendi was FFr14 higher at FFr1,222 and Carrefour FFr127 at FFr3,989. Schneider was up FFr12.90 at FFr327 and St Gobain FFr21 at FFr826.

ZURICH closed higher, but in cautious trade with investors reluctant to enter the market ahead of today's Fed open market committee meeting in the US. The SMI index was 70.7 higher at 6,774.6.

UBS was at the centre of attention on hopes that the bank would produce positive surprises when it announces interim figures today. The shares rose SFr15.50 to SFr383.50.

CS Group followed in its wake with a SFr5.75 rise to SFr204.25, also attributed to Friday's aid package for Brazil.

CS, which is active in Brazil, has come under pressure on fears Latin American economies could collapse under the weight of the crises in Russia and Asia.

Insurer Zurich was stronger, climbing SFr24 to SFr850, but Baloise and Swiss Life, which were sought last week on speculative grounds, suffered from profit-taking.

Baloise lost SFr30 to SFr1,240 and Swiss Life slipped SFr16 to SFr944.

In the pharmaceutical sector Roche certificates fell SFr260 to SFr15,950 while Novartis gained SFr17 to SFr2,587.

Last week's firmer tendency in Algroup and Ems was called into question by comments from the chief executives of both companies that the Ciba-Clariant merger had not put pressure on them to follow suit.

Algroup finished SFr5 lower at SFr1,635, but Ems put on SFr50 to SFr8,700.

AMSTERDAM put in a strong performance with the AEX index closing up 25.48 at a session high of 1,058.84.

Financials were higher in line with the broad market. Ing, a beneficiary of switching out of Aegon, rose Fl 5 to Fl 101.90 while ABN Amro rose Fl 1.50 to Fl 38.40.

Baan recouped some of its recent losses. The shares rose Fl 1 to Fl 26.50 as the company said its software was now also running on the Microsoft SQL server.

Flag carrier KLM climbed Fl 1.60 to Fl 51.70 with some investors betting that a far-reaching co-operation pact with Alitalia would be unveiled next week.

MILAN ended just off the day's highs, but thin volumes pointed to a lack of enthusiasm among investors. The real-time Mibtel index rose 366 to a 10-week high of 21,004.

Montedison rose L116 to L1,909 and its energy unit Edison put on L493 to L16,570 on expectations that a liberalisation of Italy's energy market would boost profits.

Finmeccanica jumped L81 to L1,352 on a report that Europe's leading aerospace groups, in which it is represented by its Alenia business, had agreed to try to consolidate the industry by forming an integrated European defence group.

Nicholas Potter at SG Securities has a L1,950 share price target on a 12- to 18-month time scale.

Among Europe's emerging markets, **ISTANBUL** rebounded another 9.1 per cent, driven along by easing tensions in the Gulf and Friday's news that Kurdish guerrilla leader Abdullah Ocalan had been detained in Rome. The IMKB National-100 index ended 192.75 higher at 2,308.16.

WARSAW was another big winner ahead of tomorrow's trading debut for telecoms giant TPSA. The Wig index rose 688.6 or 5.5 per cent to 13,175.2.

Written and edited by Michael Morgan, Peter Hall, Paul Gregan and Caroline von Loewenich

Rate cut hopes lift Hong Kong

ASIA PACIFIC

Hopes of an interest rate cut in the US after today's meeting of the Federal Reserve's policy making committee, swept **HONG KONG** higher.

The Hang Seng index jumped 300.10 or 3 per cent to 10,298.09 in turnover that picked up to HK$6.9bn.

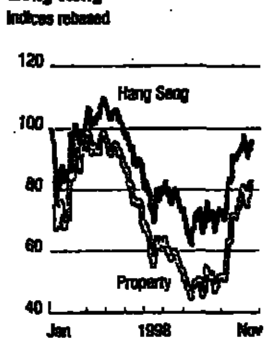
Brokers said the easing of tensions in the Gulf, after the US called off attacks against Iraq, and a Y24,000bn economic stimulus package announced by Japan had also helped sentiment.

News from Sino Land that it had received an encouraging response to weekend apartment sales spurred the sector. Sino Land soared 22.5 cents or 7.3 per cent to HK$3.325, while Sun Hung Kai Properties rose HK$3.25 or 6.3 percent to HK$55.25 and Cheung Kong gained HK$3 to HK$58.75.

SINGAPORE was also sent higher by rallying property stocks on speculation developers would benefit soon from the formation of real estate investment trusts. The Monetary Authority of Singapore said earlier in the year that it had approved the formation of "Reits", which would buy up property developers' empty units.

The Straits Times index ended 34.83 or 2.9 per cent higher at 1,241.74, helped by a 6 per cent rise in the property sub-index.

Hong Kong
Indices rebased



Source: Datastream/ICV

The heavily traded Keppel Land rose 10 cents to S$1.73 while DBS Land put on 15 cents to S$1.99 and Wing Tai Holdings 2 cents to S$1.08.

Banks also had a good day with DBS Bank foreign rising 60 cents to S$10.80 and United Overseas Bank foreign up 40 cents to S$8.10.

TOKYO made only modest gains in spite of a Y24,000bn government economic stimulus package, *writes Naoko Nakamae.*

The Nikkei 225 average rose 1.1 per cent or 160.06 to 14,428.27 after trading between 14,205.13 and 14,450.56. Other indices were also higher with the weighted Nikkei 300 index gaining 1.2 per cent or 2.61 to 320.96. The broader Topix index of first-sector stocks rose 1.1 per cent or 11.98 to 1,105.5. Volume was moderate at 443m shares, with 816 rising issues and 335 falling.

The stimulus package boosted construction, real estate and other related stocks. Fujita, the most heavily traded stock, jumped 32.4 per cent or Y22 to Y90, while Aoki Corporation rose 10.1 per cent or Y7 to Y76, Haseko 7.1 per cent or Y4 to Y60 and Sato Kogyo 8.1 per cent or Y8 to Y107.

The banking sector profited from reports that Sumitomo Bank was considering applying for an injection of public funds. Sumitomo's shares rose Y41 to Y1,328. Sanwa Bank gained Y16 to Y1,036 and Sakura Bank Y4 to Y354. The sector as a whole rose 1.3 per cent.

Exporters also did well, helped by Wall Street's rally on Friday. Toshiba rose 2.8 per cent to Y625 and Hitachi was up 2.7 per cent to Y680.

In Osaka, the OSE index rose 176.86 to 14,774.46.

TAIPEI moved sharply ahead for a second straight session, spurred on by the emergency state stabilisation fund and central bank monetary moves. The weighted index rose 174.25 or 2.6 per cent to close at the day's high of 7,003.87. Turnover was active at T$87.2bn.

Analysts noted confidence had improved after the central bank raised the interest it pays on banks' mandatory reserve accounts, a move that analysts said could inject T$60bn into the banking system.

On Friday, the index rebounded 2.6 per cent after the finance ministry launched an emergency stabilisation fund authorising state funds and financial institutions to buy up to T$200bn in blue-chip shares.

The stabilisation fund moved quickly, showing net buying of more than T$600m on Friday. Yesterday, it was thought to be behind a T$6 rise in insurance giant Cathay Life and a T$2.90 surge to T$44.60 in plastics giant Nan Ya Plastic.

SEOUL climbed 1.9 per cent with the composite index rising 7.99 to 422.21 as broadly improving sentiment spurred demand for blue chips. The electronics sector was in demand with Samsung Electronics adding Won2,100 to Won67,000 on speculation of higher earning margins next year. Hyundai Electronics climbed Won1,300 to Won23,200 and LG Semicon rose Won400 to Won11,500.